



STATE BUDGET 2008-09

INTRODUCTION

The 2008 Budget Act resolves the \$24.3 billion budget deficit identified in the May Revision. It provides a modest reserve of \$1.7 billion this year, but projects a deficit of \$1.0 billion in 2009-10. While this budget does not resolve the state's persistent structural budget deficit, it includes a historic budget reform measure that puts California on the path to fiscal stability and avoids borrowing from local governments or transportation funds.

Figure INT-01 shows that expenditure reductions account for 47 percent of all solutions, more than any other category. As a result of these reductions, this budget holds General Fund spending to virtually no growth this year—\$103.4 billion in 2008-09 compared to \$103.3 billion in 2007-08. It is also noteworthy that this reflects less than two-percent growth as compared to General Fund spending in 2006-07.

The Budget includes a reduction of \$850 million General Fund, or one percent below the amounts proposed in the budget bill adopted by the Legislature. This reduction is due to:

- \$510 million in General Fund vetoes. These vetoes reflect the Governor's determination to reduce spending to the maximum extent possible given constitutional, statutory, and court-ordered spending requirements.

Figure INT-01
Recap of Solutions
(Dollars in Millions)

	2007-08 and Prior	2008-09	Total	
			Dollars	Percent
Revenue Increases	\$2,058	\$6,506	\$8,564	35%
Borrowing	3,313	714	4,027	17%
Expenditure Reductions*	1,717	9,663	11,380	47%
Reduce Reserve		306	306	1%
Total	\$7,088	\$17,189	\$24,277	100%

* Includes \$510 million in vetoes and \$340 million in savings due to the budget delay and Executive Order S-09-08.

- \$340 million in General Fund savings due to the delay in enacting this Budget and the effect of Executive Order S-09-08. The budget delay slowed or halted many activities of government for nearly three months. The Executive Order terminated the services of temporary employees and reduced overtime. Given the state's fiscal condition, the order will remain in effect for the remainder of the year.

Figure INT-02 displays the solutions included in this budget in more detail.

BUDGET REFORM

The Governor's highest budget priority this year was to enact reforms in the state's budget system. In response, the Legislature approved an historic constitutional amendment, to be considered by the people on the next statewide ballot after this November.

Budget reform addresses the three major reasons that California has periodically faced drastic budget crises like the one we are experiencing this year:

- Over the years, the state has undertaken ongoing commitments funded by temporary revenue surpluses during years of high growth. Budget reform will limit the Legislature's ability to spend surge revenue in high-growth years by mandating that at least three percent of General Fund revenues each year be sequestered into a "rainy day" fund, unless the rainy day fund is full or moneys are being accessed in a deficit year. Higher-than-anticipated revenues will also be captured and deposited in the fund.

Figure INT-02
Major Solutions
(Dollars in Millions)

	2007-08 & prior	2008-09	Total
<u>Revenue Increases</u>			
Corporate Penalty for Understatement of Tax	\$1,435	\$75	\$1,510
Net Operating Loss Suspension and Carryback		1,265	1,265
Tax Credit Limitation and Usage Modification		615	615
Limited Liability Corporations Payment Date Change		360	360
Accelerate Estimated Payments		1,270	1,270
Remove Estimated Payment Option for High Income Taxpayers		1,035	1,035
Accrual Change	416	1,440	1,856
Additional Tax Revenues (LAO/DOF) (June)	120	-250	-130
Additional Tideland Revenues (LAO/DOF)	24	166	190
Additional Revenues from Tribal Compacts		78	78
FTB/BOE Revenue Options		226	226
Transfers from Special Funds		141	141
Justice Settlement (transfer to GF)		11	11
All Other Changes	63	74	137
Total Revenue Increases	\$2,058	\$6,506	\$8,564
<u>Borrowing</u>			
Economic Recovery Bonds	\$3,313		\$3,313
Loans from Special Funds		\$714	714
Total Borrowing	\$3,313	\$714	\$4,027
<u>Expenditure Reductions</u>			
Proposition 98:			
Property Tax	\$275	\$423	\$698
Redevelopment Agency Pass Through		350	350
Settle-Up Payment	150		150
Base	671	2,643	3,314
Non Proposition 98:			
Budget Balancing Reductions	113	2,154	2,267
Non Budget Balancing Reductions:			
Medi-Cal Program Savings	165		165
Suspend Prop 58 Transfer		1,509	1,509
Use of Public Transportation Account for Home-to-School Transportation		488	488
Use Spillover Moneys for Debt Service Payments		250	250
Reimburse of GF for Past Debt Service Payments from TDSF		235	235
Reduce Mandates Funding		53	53
Eliminate Estimated Claims for N98 Mandates		75	75
Defer Third Year Payment of 15-Year Plan for Old N98 Mandates		75	75
Eliminate Funding for CCPOA Last, Best, and Final Offer	260	230	490
Health and Dental Benefits for Annuitants Premium Reductions	23	81	104
State Cash Management Improvement Program		60	60
Reduction (Control Section 4.07)		50	50
Savings Due to Budget Delay and Executive Order S-09-08		340	340
All Other Changes	60	137	197
Total Expenditure Reductions, before vetoes	\$1,717	\$9,153	\$10,870
Vetoes		\$510	\$510
Reduce Reserve		\$306	\$306
Total Solutions	\$7,088	\$17,189	\$24,277

- The state has failed to build up a "rainy day" fund to cover downturns in the economy. Budget reform will greatly strengthen the state's rainy day fund by increasing it over the next several years to an amount equal to 12.5 percent of each year's General Fund revenues and strictly limiting the withdrawal of funds.
- Finally, the state has been slow to act to reduce spending when budget deficits arise. Budget reform gives the Governor the ability to freeze and reduce spending mid-year in future downturns.

CALIFORNIA STATE LOTTERY MODERNIZATION AND SECURITIZATION

The budget package includes legislation, if approved by the voters, that will authorize the California State Lottery to adopt changes that will help to improve its financial performance, with the General Fund ultimately benefiting from this improved performance. In addition to capitalizing on this underperforming asset, the legislation will protect education funding by increasing the Proposition 98 minimum guarantee to offset the loss of lottery revenue to K-14 education, thereby giving schools a more stable and growing source of funds to replace the historically unreliable lottery revenues.

Also included is legislation that will authorize the securitization of a portion of future lottery revenues. The securitization proceeds will be deposited into a newly created Debt Retirement Fund and available for various purposes that will help offset future General Fund expenditures. The first \$5 billion of securitized revenue is expected to be available in 2009-10.

REVENUE ESTIMATES

General Fund revenues are expected to be \$103.027 billion in 2007-08 and \$101.991 billion in 2008-09. This represents an increase of \$1.837 billion in 2007-08 and a decrease of \$996 million in 2008-09, compared to the May Revision. In addition to the tax provisions discussed below, 2007-08 includes \$120 million due to higher-than-projected year-end collections.

Figure REV-01 displays the forecast changes between May Revision and Budget Act.

TAX LAW CHANGES

This section lists tax law changes enacted with the Budget:

Improve Compliance with Taxes by Establishing a Penalty for Understatement

of Tax: Corporate taxpayers who understate their tax liability by \$1 million or more will be subject to a new penalty. This penalty, equal to 20 percent of tax understatement, would apply to tax years beginning on and after 2003 and will be assessed in addition to the current 10 percent annual interest applied to these late payments. Taxpayers could file amended returns and report and pay tax understatements by May 31, 2009 to avoid paying the penalty. This tax law change is expected to increase 2007-08 revenues by \$1.435 billion, 2008-09 revenues by \$75 million and 2009-10 revenues by \$45 million.

Vehicle and Aircraft Use Tax: Under prior law, vehicles, vessels, and aircraft shipped or brought into California within 90 days of the date of purchase were generally

Figure REV-01
General Fund Revenue Forecast
Reconciliation with the 2008-09 May Revision
(Dollars in Millions)

Source	May Revision	Budget Act	Change Between Forecasts	
<u>Fiscal 06-07</u>				
Personal Income Tax	\$51,941	\$51,971	\$30	0.1%
Sales & Use Tax	27,445	27,445	\$0	0.0%
Corporation Tax	11,158	11,158	\$0	0.0%
Insurance Tax	2,178	2,178	\$0	0.0%
Alcoholic Beverage	334	334	\$0	0.0%
Cigarette	115	115	\$0	0.0%
Other Revenues	2,261	2,286	\$25	1.1%
Transfers	-19	-18	\$1	-5.3%
Total	\$95,413	\$95,469	\$56	0.1%
<u>Fiscal 07-08</u>				
Personal Income Tax	\$54,088	\$54,380	\$292	0.5%
Sales & Use Tax	27,100	26,813	-\$287	-1.1%
Corporation Tax	10,135	11,926	\$1,791	17.7%
Insurance Tax	2,171	2,171	\$0	0.0%
Alcoholic Beverage	334	334	\$0	0.0%
Cigarette	114	114	\$0	0.0%
Other Revenues	6,036	6,077	\$41	0.7%
Transfers	<u>1,212</u>	<u>1,212</u>	<u>\$0</u>	<u>0.0%</u>
Total	\$101,190	\$103,027	\$1,837	1.8%
Change from Fiscal 06-07	\$5,777	\$7,558		
% Change from Fiscal 06-07	6.1%	7.9%		
<u>Fiscal 08-09</u>				
Personal Income Tax	\$53,733	\$55,720	\$1,987	3.7%
Sales & Use Tax	27,361	27,111	-\$250	-0.9%
Corporation Tax	11,039	13,073	\$2,034	18.4%
Insurance Tax	2,029	2,029	\$0	0.0%
Alcoholic Beverage	341	341	\$0	0.0%
Cigarette	114	114	\$0	0.0%
Other Revenues	2,534	2,787	\$253	10.0%
Transfers	<u>5,836</u>	<u>816</u>	<u>-\$5,020</u>	<u>-86.0%</u>
Total	\$102,987	\$101,991	-\$996	-1.0%
Change from Fiscal 07-08	\$1,797	-\$1,036		
% Change from Fiscal 07-08	1.8%	-1.0%		
Three-Year Total			\$897	

subject to the use tax. This period has been extended from 90 days to 12 months, and made permanent. This tax law change is expected to increase revenues by \$16 million in 2008-09 and \$21 million in 2009-10.

Modified Group Income Tax Returns: This provision will permit certain non-resident partners and directors to fulfill their California income tax obligation through group tax returns filed by their partnerships or corporations. The partner's or director's income would be taxed at the highest income tax rate for that income. This tax law change is expected to increase 2008-09 revenues by \$2 million and \$2 million in 2009-10.

Net Operating Loss (NOL) Suspension and Carryback: Except for taxpayers with income that is less than or equal to \$500,000, NOL deductions are suspended for tax years 2008 and 2009. Also, beginning in 2008, the time limit on carrying forward NOLs is increased from 10 to 20 years. Beginning in 2011, taxpayers will be permitted to carryback losses for two years, bringing California into conformity with federal law. Carrybacks will be limited to 50 percent of losses for tax year 2011, and 75 percent for tax year 2012. The full NOL could be carried back starting in 2013. This tax law change is expected to increase revenues by \$1.265 billion in 2008-09 and \$695 million in 2009-10. In part because of carrybacks, this tax law change is expected to reduce revenues in subsequent years. The revenue loss is projected to be \$265 million in 2010-11 and \$485 million in 2011-12.

Tax Credit Limitation and Usage Modification: Under prior law, business incentive credits could reduce corporate tax liability to the \$800 minimum tax, and eliminate entirely personal income tax (PIT) liability. This provision will limit tax reductions from tax credits to 50 percent of tax liability. This limitation is effective for tax years 2008 and 2009 for corporate and individual taxpayers. For tax years 2010 and later, the 50-percent limitation would no longer apply. In addition, corporations will now be allowed to share credits within a unitary group, but only if the receiving member of the group was in the group when the credit was earned. If a corporation is sold or transferred to another unitary group, credit sharing would generally not be allowed. These changes are expected to increase revenues by \$615 million in 2008-09 and \$260 million in 2009-10, and reduce revenues by \$385 million in 2010-11 and \$480 million in 2011-12.

Limited Liability Companies (LLC) Payment Date Change: Under prior law, LLC's were not required to pay the LLC fee until after the end of the year. This law change will require an estimated payment of the fee amount on the 15th day of the sixth month of the LLC year, generally June 15. This law change is expected to accelerate \$360 million in 2008-09 and \$36 million in 2009-10.

Accelerate Estimated Payments: Generally estimated payments for PIT and corporations are required to be paid in equal amounts evenly divided among the four estimated payments. Going forward, taxpayers will be required to pay 30 percent each with the first two estimated payments, and 20 percent each for the last two estimated payments. This law change is expected to accelerate \$1.270 billion in 2008-09 and \$240 million in 2009-10. Taxpayers with large unexpected mid-year changes in income will still be able to use the annualization method to avoid penalties.

Remove Estimated Payment Option for High Income Taxpayers: Currently PIT taxpayers with large increases in income and taxes from the prior tax year can avoid penalties if their prepayment amounts are equal to or greater than their prior year tax liability. This law change will instead require that taxpayers make prepayments based on their current income eliminating the “safe harbor” for PIT taxpayers with adjusted gross income (AGI) equal to or greater than \$1 million (\$500,000 if filing single). This change is expected to accelerate \$1.035 billion to 2008-09. Revenues will also increase by \$135 million in 2009-10. Taxpayers with large unexpected mid-year changes in income will still be able to use the annualization method to avoid penalties.

Accrual Change: To more properly measure tax receipts from income earned in the prior year and to implement appropriate accounting principles, the Budget includes an accrual accounting adjustment. This change is expected to increase revenues by \$416 million in 2007-08, \$1.440 billion in 2008-09, and \$133 million in 2009-10.

Figure REV-02 displays the estimated revenue effects of tax law changes.

Figure REV-02
Revenue Provisions

	Fiscal Years (Dollars in Millions)		
	2007-08	2008-09	2009-10
Establish a 20% penalty for corporations that understate their taxes by \$1,000,000 or more; effective for tax years 2003 and later; penalty is effective starting June 1, 2009.	1,435	75	45
One-year test for vehicle & aircraft use tax	-	16	21
Modified group income tax returns	-	2	2
Suspend NOL's for tax years 2008 through 2009, exempting taxpayers with income under \$500,000. Beginning in 2011, allow two year carryback of NOL's. Limit carrybacks to 50% for 2011 and 75% for 2012; 100% carrybacks after 2012. NOL's may not be carried back to tax years prior to 2009.	-	1,265	695
Limit business incentive credits to 50% of tax before credits for tax years 2008 through 2009, exempting taxpayers with income under \$500,000. Starting in 2010, allow sharing of business incentive credits within unitary groups.	-	615	260
LLC payment date change; effective 2009	-	360	36
Accelerate estimated payment percentages; effective 2009	-	1,270	240
Remove estimated payment option for taxpayers with income over \$1 m (joint/ \$500 k single), effective 2009	-	1,035	135
Accrual change	416	1,440	133
Total	1,851	6,078	1,567

BUSINESS, TRANSPORTATION, AND HOUSING

The Business, Transportation and Housing Agency oversees programs that promote the state's business and economic climate, transportation infrastructure, affordable housing, and patients' rights. The Agency also promotes public safety through the Department of Motor Vehicles, the California Highway Patrol and the Department of Alcoholic Beverage Control. Funding for all programs exceeds \$19.4 billion, which is largely derived from special fund revenues, federal funds, and the proceeds of bonds.

DEPARTMENT OF TRANSPORTATION (CALTRANS)

The Budget includes approximately \$17.3 billion for the state's transportation programs. This is a decrease of \$212 million over funding available in 2007-08, due to a one-time influx of local Proposition 1B funds for local road maintenance and transit projects appropriated in the 2007 Budget Act.

Caltrans' budget includes \$13.8 billion, a reduction of \$177 million from 2007-08 due largely to lower federal and state excise tax revenues as increased fuel prices continue to reduce consumption, making less funding available for projects.

Included in this funding is \$1.5 billion for the State Transportation Improvement Program (STIP), \$2.4 billion for the State Highway Operation and Protection Program (SHOPP), \$110 million for the Traffic Congestion Relief Program (TCRP), \$1.9 billion for local non-STIP projects, \$1.9 billion for local streets and roads maintenance, \$826 million for transit projects (including State Transit Assistance), and \$7.9 billion for capital outlay

support, state highway operations and maintenance, bond-funded projects and support, transit support, local assistance support, and administration costs. The Proposition 42 transfer also is fully funded at an estimated \$1.4 billion and \$182.7 million is included to pay outstanding loans from previous years.

TRANSPORTATION BOND FUNDING

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) authorizes \$19.925 billion over the next 9 years to fund existing and new statewide transportation-related infrastructure programs and projects. Legislation enacted together with the budget further defines how several of these programs will work and includes accountability provisions. The Budget includes \$4.7 billion in 2008-09 as shown in Figure BTH-01. Also of note, Chapter 39, Statutes of 2008 (AB 1252), enacted in June 2008, provided \$149 million from Proposition 1B to accelerate funding for local streets and roads projects (\$87 million) and highway-railroad crossing projects (\$62 million).

Figure BTH-01
2008-09 Proposition 1B Appropriations
(Dollars in Millions)

	2007-08	2008-09	Balance
Corridor Mobility	\$608	\$1,556	\$2,336
Trade Corridors	\$0	\$504	\$1,496
Local Transit	\$600	\$350	\$2,650
State Transportation Improvement Program	\$863	\$996	\$141
Local Streets and Roads	\$1,037	\$250	\$713
State Highway Operation and Protection Program	\$403	\$214	\$133
State & Local Partnership Program	\$0	\$201	\$799
Grade Separations	\$123	\$63	\$64
Highway 99	\$14	\$104	\$882
Local Seismic	\$14	\$21	\$90
Intercity Rail	\$188	\$73	\$139
School Bus Retrofit	\$193	\$0	\$7
Air Quality	\$250	\$250	\$500
Transit Security	\$101	\$101	\$798
Port Security	\$41	\$58	\$1
Total Appropriations	\$4,435	\$4,741	\$10,749

PROPOSITION 42

Proposition 42, enacted in March 2002, amended the State Constitution to transfer state sales taxes on gasoline, other than revenues calculated under the spillover formula, from the General Fund to transportation purposes beginning in 2003-04. The Budget reflects full Proposition 42 funding of \$1.4 billion, including \$573 million for STIP and \$286 million for the Public Transportation Account (PTA), as provided in existing law. In November 2006, Proposition 1A was enacted to limit the conditions under which Proposition 42 transfers can be suspended and require that all outstanding loans from Proposition 42 to the General Fund be repaid in annual increments by June 30, 2016. The Budget fully funds the 2008-09 \$83 million repayment.

MASS TRANSPORTATION

The Budget provides funding for the following transit, rail and planning programs, as reflected in Figure BTH-02.

Figure BTH-02
Public Transportation
(Dollars in Millions)

<u>Public Transportation Account Funding</u>	2007-08	2008-09
Planning	\$23	\$23
Intercity Rail Operations	\$113	\$122
Rail Projects	\$36	\$0
Local Transit Grants	\$312	\$306
Local Transit Projects	\$566	\$53
<u>Traffic Congestion Relief Program Funding</u>		
Local Mass Transportation Projects	\$66	\$59
State Rail Projects	\$12	\$5
<u>Proposition 1B Funding</u>		
Transit	\$600	\$350
Rail	\$188	\$73
Transit Security	\$101	\$101
Total	\$2,017	\$1,092

The PTA receives funds from sales tax on diesel fuel, a portion of the sales tax increase provided by Proposition 111, Proposition 42, and the “spillover” sales tax on gasoline. Spillover revenues occur when revenue derived from gasoline sales taxes is proportionately higher than revenue derived from all taxable sales pursuant to a statutory formula. These revenues have been growing at an extremely rapid rate,

from \$88.6 million in 2003-04 to \$1.427 billion projected in 2008-09, and are expected to remain well over \$1 billion through 2011-12. These revenues, in addition to increases in gasoline and diesel fuel sales tax revenues, have enabled the state to fund the following transportation programs in 2008-09 that were previously funded by the General Fund:

Transportation General Obligation Bond Debt Service (\$939 million)

Developmental Services-Regional Center Transportation (\$138 million)

Home-to-School Transportation (\$593 million)

Proposition 42 Loan Repayment Pursuant to Proposition 1A (\$83 million)

CAPITAL OUTLAY SUPPORT STAFFING

The Budget reflects a decrease of \$38.8 million and an increase of 6 position equivalents, including state staff, overtime and contractual services to provide capital outlay support including bond-related workload in 2008-09. The reduction was a result of lower staff levels required to support bond fund projects than originally forecast and the conversion of contract work to staff work.

STATE HIGHWAY OPERATION AND PROTECTION PROGRAM

The Budget provides \$2.4 billion to fund projects in the SHOPP that reduce collisions and hazards to motorists, preserve and rehabilitate bridges and roadways, enhance and protect roadsides, and improve the operation of the state highway system. This is a decrease of \$194 million from 2007-08, as a result of lower revenues from fuel excise taxes.

MAINTENANCE

The Budget provides \$1.2 billion for maintenance of approximately 15,000 centerline miles of highway, over 230,000 right-of-way acres, and over 12,000 state highway bridges. This reflects an increase of \$29.8 million over 2007-08.

LOCAL STREETS AND ROADS

The Budget provides \$1.9 billion for local streets and roads maintenance, including \$250 million from bonds authorized by Proposition 1B. This is a 10-percent decrease of \$222 million from 2007-08.

The Budget provides \$122 million to manage and coordinate intercity rail passenger services that provide commuters with a range of transportation options, help improve

the state's air quality, and reduce highway congestion and fuel consumption. Caltrans manages two state-supported routes operated by Amtrak, the San Joaquin and Pacific Surfliner, and financially supports the Capitol Corridor.

HIGH-SPEED RAIL AUTHORITY

The Budget provides \$43 million for preliminary engineering and environmental contract work along the corridors of the system. Funding includes \$5.6 million from the PTA, \$8.2 million from savings on Proposition 116-funded projects, and \$29.1 million from bond proceeds if the November bond measure passes. The environmental work and preliminary engineering contract work funded in the Budget will need to be completed before bids for project construction can be solicited.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Budget includes \$1.0 billion (\$15.1 million General Fund) and 622.7 positions to fund the state's housing assistance programs. This is a decrease of \$425.6 million from 2007-08. This decrease results from higher 2007-08 Proposition 1C expenditures due to program accelerations and one-time allocations. These include \$150 million for the Infill Housing and the Transit Oriented Development programs to stimulate the state's economy by accelerating housing projects that provide construction industry jobs, \$170 million for the California Homebuyers Assistance and the Residential Development Loan programs administered by the California Housing Finance Agency, and a one-time allocation of \$60 million to the California Pollution Control Financing Authority to provide loans and grants for brownfield mitigation that promotes infill residential and mixed use development.

Proposition 1C authorizes \$2.8 billion to improve housing opportunities in the state. The Department of Housing and Community Development awarded \$923 million for existing programs in 2007-08 and expects to make awards totaling \$741 million in 2008-09 for the following program areas:

- Affordable homeownership programs—\$148 million to help families become or remain homeowners.
- Affordable rental housing construction—\$101 million to provide affordable rental housing for the state's lower-income workforce, the elderly, disabled, and veterans.

BUSINESS, TRANSPORTATION, AND HOUSING

- Housing for farmworkers—\$40 million for new rental housing and affordable home ownership opportunities for farmworker families.
- Permanent housing for the homeless—\$93 million to build permanent housing for the homeless, those transitioning out of homelessness, and emancipated foster care youth.
- Homeless shelter housing—\$24 million to construct and expand shelters of last resort and transitional housing for the homeless.
- Building Equity and Growth in Neighborhoods (BEGIN)—\$40 million for grants to cities and counties to make deferred-payment second mortgage loans to qualified buyers of new homes.
- Transit-oriented development—\$95 million to develop and construct new housing close to transit stations.
- Infill Incentive Grants—\$200 million for a competitive-based grant program to construct critical infrastructure that will stimulate the construction of new housing in existing neighborhoods and encourage efficient land use and development.

RESOURCES

The Budget provides significant funding for programs that protect California's natural resources for current and future generations. These programs not only preserve and restore the state's pristine coastline, unique forests, and diverse fish and wildlife habitat, but also protect the public from wildfires, floods, and other natural disasters. The Budget includes funding for the following programs critical to maintaining and enhancing California's natural resources:

FLOOD PROTECTION

The Disaster Preparedness and Flood Prevention Bond Act of 2006 (Proposition 1E) authorizes \$4.1 billion in general obligation bonds for levee repair and other flood control system improvements. This proposition was part of a coordinated effort to address California's infrastructure needs, and it reflected a recognition that California's aging levees and other flood control infrastructure are in urgent need of repair and improvement. This recognition was strengthened by the devastation produced by failed levees in New Orleans during and after Hurricane Katrina in 2005. Governor Schwarzenegger has made improving flood protection a high priority, as evidenced by his 2006 Emergency Proclamation that directed the Department of Water Resources (DWR) to repair critical levee erosion sites in the Central Valley. In 2007, the Governor signed legislation that requires the development of a comprehensive Central Valley Flood Protection Plan by 2012.

Proposition 1E provides the following amounts in total:

- \$3.0 billion for Central Valley flood control system repairs and improvements
- \$500 million for flood control subventions outside the Central Valley
- \$300 million for stormwater flood management outside the Central Valley
- \$290 million for flood protection corridors and bypasses and floodplain mapping

To address the state's urgent flood control needs, the Budget includes \$807.8 million from Proposition 1E and Proposition 84 bond funds and 52.1 new positions for the following activities:

- \$416.6 million and 16.1 positions for the Flood SAFE California Program. This program will provide subventions to help local governments protect their communities from flooding, enhance emergency preparedness and flood response, and provide grants to local governments for urgent repairs and improvements of levees in the Central Valley and the Delta.
- \$126.5 million and 31.3 positions for levee evaluations and the repair of critical levee erosion sites.
- \$264.7 million and 4.7 positions for ten flood control capital projects: Mid-Valley Area Levee Reconstruction, South Sacramento County Streams, West Sacramento Project, Merced County Streams, Sutter Bypass, Yuba River Basin, Marysville Ring, American River Common Elements, Natomas Project, Folsom Dam Modification Project, and for feasibility studies on additional projects.

The Budget also provides \$2.8 million (\$1.8 million General Fund and \$1 million Proposition 1E) and 16.1 new positions to establish the Central Valley Flood Protection Board within DWR, as required by Chapters 365 and 366, Statutes of 2007. The new board will assume the responsibilities of the former State Reclamation Board, approve a Central Valley Flood Protection Plan by July 1, 2012, and ensure that cities and counties consider flood risks when making land use and development decisions.

PROPOSITION 84

In recent years, California's voters have approved a series of bonds to protect and enhance the state's natural resources. Propositions 12, 13, 40, and 50 have made available a total of \$10.1 billion dollars that have been used by local governments and

state agencies for a wide variety of activities such as water conservation, acquisition of land to protect wildlife habitats, and restoration of damaged ecosystems.

Most recently, the voters approved Proposition 84, which authorizes an additional \$5.4 billion in general obligation bonds for water, flood control, natural resources, park, and conservation projects. Excluding flood protection, the Budget provides \$394.8 million in Proposition 84 funds for natural resources programs in 2008-09, including:

- \$89.4 million for the State Coastal Conservancy to restore coastal wetlands and watersheds and promote public access to the coast.
- \$26.4 million for the Ocean Protection Council to develop marine protected areas and enhance habitat for marine species.
- \$26.3 million for the California Conservation Corps and local conservation corps for public safety and watershed restoration projects, as well as grants to local corps for acquisition and development facilities to support local corps programs.
- \$16.7 million for Parks for deferred maintenance, interpretive exhibits, and cultural and natural stewardship projects at state parks.
- \$10.8 million and 2.8 positions for Fish and Game for environmental and ecosystem restoration activities at the Salton Sea.

Proposition 84 provides \$1 billion for integrated regional water management and \$65 million for statewide planning activities to address California's future water supply needs. Maintaining an adequate and reliable water supply is essential for a strong and growing economy. The state must adapt and improve its water supply systems and infrastructure to address the significant challenges associated with population growth, environmental needs in the Delta, and the effects of climate change.

ALTERNATIVE AND RENEWABLE FUEL AND VEHICLE TECHNOLOGY PROGRAM

The Budget includes \$75.9 million Alternative and Renewable Fuel and Vehicle Technology Fund and 5.7 positions for the California Energy Commission to prepare guidelines and provide grants, loans, and other appropriate measures to public agencies, public-private partnerships, and other entities to develop alternative fuels and related technologies, including electricity, ethanol, renewable diesel, natural gas, hydrogen, and biomethane, among others. The development of these fuels and technologies will help reduce California's dependence on petroleum-based fuels.

ENVIRONMENTAL PROTECTION

California Environmental Protection Agency programs restore and protect environmental quality, and protect public health. The Secretary coordinates the state's environmental regulatory programs and ensures fair and consistent enforcement of environmental law, which safeguards the state's residents and promotes the state's economic vitality.

CALIFORNIA GLOBAL WARMING SOLUTIONS ACT

The Budget includes \$5.6 million special fund and 25.8 positions for the Air Board to continue implementation of the California Global Warming Solutions Act of 2006. These resources will support development and implementation of the Low-Carbon Fuel Standard and develop other greenhouse gas reduction measures.

FINANCIAL INCENTIVE PROGRAM FOR HEAVY-DUTY VEHICLES

The Budget includes \$48.7 million special fund for the Air Board to develop and implement a grant and loan program for owners and operators of on-road heavy-duty diesel-fueled motor vehicles. The grant and loan program will assist owners and operators to meet the costs resulting from early compliance with Air Board regulations requiring reductions in particulate matter emissions from these vehicles and greenhouse gas emissions from heavy-duty tractors and trailers. This funding will encourage early

action and provide environmental compliance assistance to heavy-duty fleets subject to upcoming regulations, thus ensuring the State achieves critical emission reductions.

HYDROGEN HIGHWAY

The Budget includes \$6 million one-time special fund to continue efforts to expand the state's Zero Emission Vehicle (ZEV) program infrastructure by offering incentives and co-funding opportunities for the purchase, lease and demonstration of zero emission vehicles and certain advanced technology near-zero emission vehicles. This funding will help the state move toward its goals of reducing greenhouse gases, criteria pollutants and toxic air emissions, and reduce the state's dependence on petroleum and implement the use of renewable fuels. These funds also will continue implementation of the California Hydrogen Highway Plan by offering grants to establish hydrogen refueling stations.

GREEN CHEMISTRY

Green chemistry is about designing products and processes to reduce or eliminate the need to manage and control end-of-cycle waste. The Budget contains \$772,000 special fund and six positions for the California Green Chemistry Initiative. Historically, environmental protection has concentrated on capturing and storing hazardous waste. Green chemistry is a fundamentally new approach to environmental protection, transitioning away from managing toxic chemicals at the end of the lifecycle, to reducing or eliminating their use altogether.

The Green Chemistry Initiative will identify options to significantly reduce the impact of toxic chemicals on public health and the environment. The initiative is a comprehensive and collaborative approach to develop a consistent means for evaluating risk, reduce exposure, encourage less toxic industrial processes, and identify safer alternatives. The result of a cooperative effort between the Department of Toxic Substances Control and volunteer industries will be an information repository that will provide safer, non-toxic alternatives to current production practices.

HEALTH AND HUMAN SERVICES

Health and Human Services programs provide medical, dental, mental health, and social services to many of California's most vulnerable and at-risk residents. These programs touch the lives of millions of Californians and provide access to critical services that promote their health, well-being, and ability to more effectively function in society. The Budget reflects the Administration's efforts to maintain a safety net for California's most vulnerable residents, to ensure that children are raised in safer, more stable, and permanent homes, and that seniors and persons with disabilities live in the most integrated and appropriate community setting.

Figure HHS-01 below displays the funding and estimates of the caseloads for California's various major Health and Human Services programs.

DEPARTMENT OF HEALTH CARE SERVICES

FUNDING PROVIDED TO COUNTIES FOR MEDI-CAL ELIGIBILITY ACTIVITIES

The Budget reflects savings of \$107.2 million (\$53.4 million General Fund) in funding for counties to determine eligibility for Medi-Cal services. County eligibility workers perform intake and re-determination work with beneficiaries applying for services.

HOSPITAL COST CONTAINMENT MEASURES

The Budget seeks to create incentives for hospitals to contract with the Medi-Cal program and with Medi-Cal managed care plans. To this end it limits fee-for-service

Figure HHS-1

**Major Health and Human Services Programs
General Fund Spending and Caseload**
(Dollars in millions)

	2007-08 Dollars	2007-08 Caseload	2008-09 Dollars	2008-09 Caseload
Medi-Cal	\$14,226.8	6,636,500	\$14,511.8	6,729,510
Supplemental Security Income/ State Supplementary Payment	3,645.4	1,247,580	3,751.9	1,274,000
Regional Centers	2,116.6	221,069	2,401.6	229,680
Developmental Centers	409.6	2,620	361.5	2,400
Mental Health-Long-Term Care Services, including State Hospitals	1,100.0	5,790	1,148.2	6,080
Mental Health-Community Mental Health Services	769.5	N/A	835.4	N/A
CalWORKs ^{1/}	1,476.0	460,120	2,032.7	475,340
In-Home Supportive Services	1,666.3	396,610	1,810.8	421,590
Children's Services	1,625.3 ^{2/}	71,400 ^{3/}	1,702.2 ^{2/}	70,850 ^{3/}
Healthy Families	395.8	880,999	397.5	935,482
Department of Public Health	394.9	N/A	349.0	N/A
Alcohol and Drug Programs	268.6	N/A	290.0 ^{4/}	N/A

^{1/} Majority of increase related to depletion of federal funding that has historically been carried over year-after-year. This requires a General Fund backfill in 2008-09 and did not affect eligibility, services, or otherwise impact recipients. Total funds for CalWORKs increased by approximately \$100 million from 2007-08 to 2008-09, primarily due to caseload growth.

^{2/} Includes Foster Care payments and administration, Adoptions Assistance Program, Child Welfare Services, Adoptions, and Child Abuse Prevention.

^{3/} Reflects caseload for Foster Care program only.

^{4/} Includes \$25 million pass-through to the California Department of Corrections and Rehabilitation for Parolee Substance

Medi-Cal payments for inpatient care at hospitals that do not contract with Medi-Cal through the California Medical Assistance Commission (CMAC). Similarly, it limits the amount that participating plans must pay hospitals that are out of the plan's network for emergency services and for post-stabilization services provided to Medi-Cal beneficiaries. The limit would not apply to rural hospitals and hospitals in areas historically excluded from contracting and that have fewer than three general acute care hospitals. This change will generate \$17.5 million in General Fund savings.

MEDI-CAL SPECIALTY PHARMACY AND REBATE

The Budget includes savings of \$250,000 by authorizing the Department of Health Care Services (DHCS) to contract for specialty pharmacy products, including blood factor products, blood derivatives, immunizations, and other specialized drugs. The DHCS would also establish a process to collect rebates from drug manufacturers for these specialty pharmacy products.

DEPARTMENT OF DEVELOPMENTAL SERVICES**PERMANENT EXTENSION OF COST CONTAINMENT MEASURES**

The Budget makes permanent current Regional Center cost containment measures which are expected to result in savings of \$366.6 million (\$249.3 million General Fund). These measures include the continuation of the current freeze on rates paid for targeted program categories. This rate freeze had previously been scheduled to end June 30, 2008.

EXPANSION OF THE FAMILY COST PARTICIPATION PROGRAM

The Budget includes savings of \$1.3 million General Fund resulting from the expansion of the Family Cost Participation Program, to include a share of the cost of respite, day care, and camping services for parents of Early Start consumers. The Early Start Program provides early intervention services to infants and toddlers with a developmental disability, developmental delay, or those at risk of developmental delay or disability, and their families. The share of cost scale will also be expanded to families with incomes at 400 percent of the Federal Poverty Level (FPL) and above who will pay 10 percent of the cost of respite, day care, and camping services. Families with incomes at 1,000 percent of the FPL or above will pay 100 percent of the cost of these services.

DEPARTMENT OF MENTAL HEALTH**MENTAL HEALTH SERVICES ACT (PROPOSITION 63) HOUSING PROGRAM**

The Budget includes \$1.49 billion in Mental Health Services Act (MHSA) funds for Proposition 63, of which \$100 million is committed by counties to the MHSA Housing Program. This funding is in addition to \$300 million identified by counties in 2007-08. This program makes funding available through the California Housing Finance Agency (CalHFA) to develop permanent supportive housing serving persons with serious mental illness who are homeless or at risk of homelessness.

NEW DIVISION OF CORRECTIONAL MENTAL HEALTH SERVICES

In response to the *Plata* Receiver's request for additional resources to improve mental healthcare for prison inmates, the Department of Mental Health (DMH) and the California Department of Corrections and Rehabilitation (CDCR) will undertake a joint project to provide 1,000 new mental health beds located in two of seven new healthcare facilities, the first of which is tentatively scheduled to open in January 2011. In 2008, through an inter-agency agreement with CDCR, the DMH will establish a new division within the department that will oversee the clinical and administrative operation of these facilities and will assume responsibility for providing acute and intermediate in-patient mental health treatment services to inmate-patients.

DEPARTMENT OF CHILD SUPPORT SERVICES

CHILD SUPPORT AUTOMATION

Chapter 479, Statutes of 1999 designated the Franchise Tax Board (FTB) as the agent of Department of Child Support Services (DCSS) for the procurement, development, statewide implementation, maintenance and operation of the California Child Support Automation System (CCSAS). When statewide implementation is complete, the child support system will manage the nation's largest child support caseload of more than 1.6 million child support cases covering approximately 1.8 million children.

The system has been fully developed with statewide implementation expected to be completed by November 2008. Upon statewide implementation, the federal government will lift the spending cap under which the state has been operating. Once federal notification is received formally accepting statewide implementation, responsibility for the CCSAS will transition from the FTB to the DCSS.

DEPARTMENT OF SOCIAL SERVICES

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT PROGRAM

On January 1, 2009, the monthly grant payment levels will increase from \$870 for aged or disabled individuals and from \$1,524 for aged or disabled couples to \$887 and \$1,550, respectively, given a federal cost-of-living adjustment (COLA) for the Supplemental Security Income (SSI) program. The Budget permanently suspends provision of the June 2008 and June 2009 State Supplementary Payment (SSP) program COLAs. California's SSI/SSP payment levels for individuals and couples remain the highest among the nation's 10 most populous states and are projected to maintain national rankings of second and first, respectively.

K THRU 12 EDUCATION

California's school districts, charter schools and county offices of education provide instruction and a variety of programs and support services for pre-Kindergarten through grade twelve (K-12) students. These programs are designed to prepare students with the skills necessary to pursue higher education, obtain fulfilling employment, achieve career goals and develop as productive citizens. Programs and services provided to more than six million students annually include standards-based instruction, special education, English learner support, career preparatory programs, child care and development, remedial instruction and adult education.

The Budget Act includes \$41.9 billion General Fund in funding for K-12 education and community colleges to fund the minimum Proposition 98 Guarantee in 2008-09. Total Proposition 98 funding for K-14 education programs will increase year over year by \$1.5 billion.

TOTAL K-12 FUNDING

Total expenditures from all sources for K-12 education programs in 2008-09 are projected to be \$71.9 billion (\$42 billion General Fund). Of this amount, \$68 billion is state, federal and local property tax funding accounted for in the State Budget. Notable funding changes are described below.

ATTENDANCE

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools is declining (see Figure K12-01). For 2007-08, K-12 average daily attendance (ADA) is estimated to be 5,947,000, a decrease of 6,400 from the 2006-07 fiscal year. For 2008-09, K-12 ADA will decrease by an additional 31,000 to 5,916,000.

PER-PUPIL SPENDING

Total per-pupil expenditures from all sources are projected to be \$12,042 in 2007-08 and \$12,152 in 2008-09, including funds provided for prior year settle-up obligations (see Figure K12-02). This is an indicator of the relative level of spending in California for support of K-12 education programs and not the actual level of funding allocated to each school for a pupil.

**COST-OF-LIVING
ADJUSTMENTS**

The Budget includes \$244.3 million for a 0.68-percent cost-of-living adjustment (COLA) for school apportionments. Of this amount, \$239.8 million is for school district revenue limits and \$4.5 million is for county office of education revenue limits. No COLA is provided for categorical programs.

PROPOSITION 98 GUARANTEE

The voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went

Figure K12-01
K-12 Average Daily Attendance

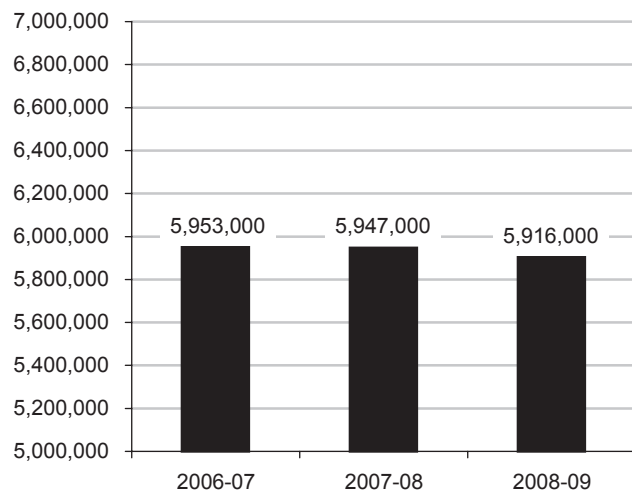
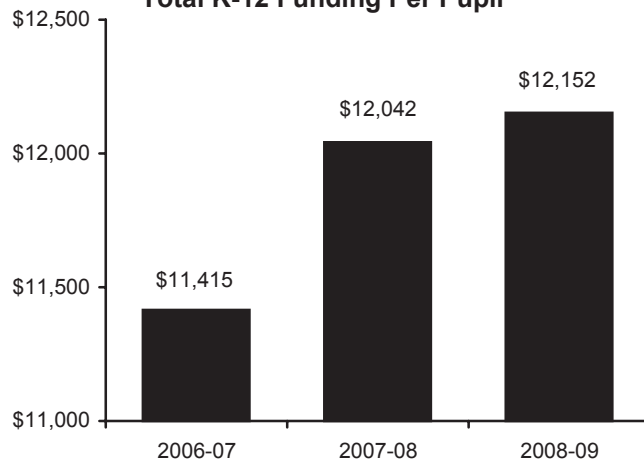


Figure K12-02
Total K-12 Funding Per Pupil



into effect in the 1988-89 fiscal year, determines funding levels according to a multitude of factors including the level of funding in 1986-87, General Fund revenues, per capita personal income and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine funding for school districts and community colleges (K-14). The calculation or test that is used depends on how the economy and General Fund revenues grow from year to year (See Figure K12-03).

For fiscal year 2006-07, the Proposition 98 Guarantee was \$55.2 billion, of which the General Fund share was \$41.4 billion. Local property taxes covered the balance.

Proposition 98 General Fund appropriations for 2007-08 are now \$41.6 billion. Total Proposition 98 funding for 2007-08 is \$56.6 billion.

The Proposition 98 Guarantee for 2008-09 is projected to grow to \$58.1 billion of which \$41.9 billion would be from the General Fund. With this additional investment, K-12 Proposition 98 per-pupil funding is \$8,784 in 2008-09, up from \$8,509 in 2007-08.

PROPERTY TAXES

The Budget reflects \$14.4 billion in school district and county office of education property tax revenues in 2008-09, an increase of \$1.0 billion over 2007-08. In general, increases in local property tax revenues decrease the amount of state General Fund costs for revenue limit apportionments. These estimates include the impact of redevelopment agency (RDA) pass-through provisions enacted with the Budget Act.

Figure K12-03

Proposition 98 Test Calculations

Test 1—Percent of General Fund Revenues

Test 1 is based on a percentage or share of General Fund tax revenues. Historically, school districts and community colleges (K-14) received approximately 40 percent in the 1986-87 fiscal year. As a result of the recent shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 40.6 percent.

Test 2—Adjustments Based on Statewide Income

Test 2 is operative in years with normal to strong General Fund revenue growth. This calculation requires that school districts and community colleges receive at least the same amount of combined state aid and local tax dollars as they received in the prior year; adjusted for enrollment growth and growth in per capita personal income.

Test 3—Adjustment Based on Available Revenues

Test 3 is utilized in low revenue years when General Fund revenues decline or grow slowly. During such years, the funding guarantee is adjusted according to available resources. A low revenue year is defined as one in which General Fund revenue growth per capita lags behind per capita personal income growth more than one-half percentage point. Test 3 was designed so that education is treated no worse in low revenue years than other segments of the state budget.

In years following a Test 3 funding level, the state is required to provide funding to restore what was not allocated the previous year. This is often referred to as a maintenance factor.

A recent report by the State Controller's Office found that RDAs have not been passing through the full amount of property tax increment revenues to local taxing jurisdictions, including local education agencies, required under current law. As a result, legislation is included with the Budget requiring RDAs to report all payments and obligations to local taxing jurisdictions for fiscal years 2003-04 through 2008-09 to the county auditor for verification. RDAs are required to remit any outstanding obligations to local taxing jurisdictions, except that monies owed to schools that offset state costs for apportionments are to be deposited in the county Educational Revenue Augmentation Fund. This transfer is estimated to be \$98 million in 2008-09.

This legislation also requires a one-time shift of \$350 million from RDAs to the county Educational Revenue Augmentation Fund in 2008-09. The shift will generate a commensurate amount of Proposition 98 General Fund savings. Each RDA will shift an amount proportionate to its individual share of statewide RDA tax increment revenues. RDAs with insufficient liquidity to fund the shift may borrow from their low-moderate income housing funds, from their organizing city or county, or from a joint powers agency.

OTHER BUDGET ADJUSTMENTS

CALIFORNIA STATE LOTTERY FUNDING FOR EDUCATION

Current law requires that at least 34 percent of lottery revenues be allocated to public education programs. Beginning in 2009-10, pending approval by the voters, the allocation of lottery revenues to public education will be replaced with annual appropriations from the General Fund. Each of the entities currently receiving lottery funding will be provided General Fund equal to the amount of lottery revenue it received in 2008-09, adjusted each year by the change in average daily attendance or full time equivalent students, as applicable, and by the change in California per capita personal income. This funding is estimated to be \$1.1 billion in 2009-10. Essentially, a relatively flat funding source for education will be replaced with General Fund appropriations which will grow significantly over time.

Commencing in 2009-10, these General Fund appropriations for school districts, county offices of education, the State Department of Corrections and Rehabilitation, the State Department of Education State Special Schools, the State Department of Developmental Services developmental centers and the State Department of Mental Health state hospitals will be provided in addition to the minimum funding level required by Proposition 98 for K-12 schools and community colleges. The effect of this is to build the Proposition 98 minimum funding level by an estimated \$1.057 billion in 2009-10, which will grow over time based on the Proposition 98 growth factors.

LOCAL EDUCATIONAL AGENCY CORRECTIVE ACTION ASSISTANCE

Consistent with the requirements placed on the state and local educational agencies (LEAs) by the federal No Child Left Behind Act (NCLB), the State Board of Education, in March 2008, approved individually differentiated sanctions and technical assistance for 97 LEAs.

To ensure that this and future cohorts of corrective action LEAs have the financial wherewithal to implement these activities, the Budget includes \$180 million federal Title I Set-Aside funds. LEAs will receive one-time funding to implement a variety of improvements and reforms aimed at improving student achievement. Specifically for this first cohort of LEAs, the budgeted resources will be used to fully implement a new curriculum that is based on state academic content and achievement standards, including providing appropriate professional development based on scientifically-based research for all relevant staff. Also, LEAs will contract with county offices of education, district assistance and intervention teams, or other assistance providers to analyze the fiscal, governance, and academic capacities of LEAs. These experts will make recommendations that should move these LEAs in a positive direction.

The funds provided in the Budget and the additional expertise should lead to better administrative and instructional systems aimed at the most important purpose, improving the educational achievement of California's students.

EMERGENCY REPAIR PROGRAM

The Budget Act provides another \$101 million transfer from the Proposition 98 Reversion Account to the Emergency Repair Account in satisfaction of the *Williams* settlement agreement. This increment of funding for the program will bring total transfers to \$392 million for the purpose of funding school facility emergency repair projects.

STUDENT AND TEACHER LONGITUDINAL DATA SYSTEMS

The Budget Act provides \$25.4 million to support the development of the California Longitudinal Pupil Achievement Data System and related school information services workload. Total funding for these programs since 2006-07, including support for all districts in preparing for the transition to the longitudinal system in the summer of 2010, is \$78.7 million. In addition, the Budget provides \$1.2 million in federal funds to support development of the California Teacher Integrated Data System. The state is currently soliciting bidder proposals for implementation, and plans on initiating development in 2009-10.

CHILD CARE

The Budget Act appropriates more than \$3.3 billion for the various child care programs administered by the State Department of Education, including funding for preschool, general child care centers, family child care homes, CalWORKs child care and before- and after-school programs. Total funding includes \$338.3 million in one-time Proposition 98 resources to fully fund CalWORKs Stage 2 and Stage 3 child care. The Budget Act also includes \$10.9 million for growth for non-CalWORKs child care programs. A total of approximately 915,000 child care slots are funded in the budget.

The Budget Act reflects completion of the policy change initiated in 2007-08 to fully fund Stage 2 costs without a federal Temporary Assistance for Needy Families (TANF) holdback. The Budget provides an additional \$25.5 million in Proposition 98 resources for this purpose.

Finally, the Budget updates the regional market rate ceilings for child care reimbursements for voucher-based programs at the 85th percentile of the rates charged to private pay clients for the same type of child care for the same age child in that region based on the 2007 Regional Market Rate (RMR) survey, effective March 1, 2009. This will drive considerably higher costs per case in the future, similar to the rate increases of approximately 12 percent experienced in 2007-08. Additional costs in excess of \$50 million for CalWORKs child care are projected in 2009-10.

PROPOSITION 98 SETTLE-UP PAYMENTS

The 2008-09 Budget defers \$150 million in settle-up payments that have traditionally been appropriated to reduce prior years outstanding K-14 unfunded reimbursable costs for mandated programs.

The Budget includes \$402 million in settle-up funds to continue the Quality Education Investment Act of 2006. Over a seven-year period, nearly \$2.7 billion will be spent in an effort to improve the quality of academic instruction and the learning environment at the lowest-performing schools in the state. These goals are to be achieved through reduced class size and improved teacher quality and training in schools at all grade levels, and improved counselor-to-student ratios in low-performing high schools. The program also creates a process for schools to calculate and report average experience of their teachers.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

The California State Teachers' Retirement System (CalSTRS) administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the

State Teachers' Retirement Plan (Plan). The Plan is a defined benefit pension program that provides retirement, disability, and survivor benefits for teachers and certain other employees of the California public school system. The Plan is comprised of three programs: the Defined Benefit Program, the Defined Benefit Supplement Program and the Cash Balance Benefit Program. Within the Defined Benefit Program there is also a Supplemental Benefit Maintenance Account (SBMA), which provides annual supplemental payments in quarterly installments to retired teachers whose purchasing power has fallen below 80 percent of the purchasing power of an initial allowance.

Currently the state makes annual General Fund contributions to the SBMA of 2.5 percent of teacher payroll for purchasing power protection. However, the 80 percent level of supplemental payments is not a vested benefit. This means that if the amount in the SBMA was not sufficient to bring purchasing power up to the 80 percent level, supplemental payments may have to be suspended or paid at a lower level. An actuarial analysis performed in 2005 at the direction of the Department of Finance shows that the SBMA is being overfunded and has more than enough funds to provide the purchasing power protection for current and future retired teachers. The Legislature adopted a comprehensive package to provide General Fund savings while enhancing benefits for retired teachers. This comprehensive package provides:

- An increase up to 85 percent non-vested purchasing power protection. The CalSTRS Board is allowed to set SBMA benefits between those necessary to preserve 80 to 85 percent of retirees' purchasing power pursuant to CalSTRS regulations, subject to the availability of the 80 percent level.
- An annual General Fund contribution to the SBMA of 2.5 percent of teacher payroll less \$66.4 million in fiscal year 2008-09, \$70 million in 2009-10, \$71 million in 2010-11 and \$72 million thereafter.
- A change from a single July 1 payment to a 50/50 split over two payments to be made on November 1 and April 1 of each year.
- Payments of \$56,979,949 for four fiscal years beginning in 2009-10 to pay for interest accrued from the CalSTRS lawsuit.
- An extended payroll reporting period to October 25 with the ability to amend the report until April 15 of each year.
- An additional appropriation of up to \$3 million in 2009-10 to account for prior payroll reporting errors.

HIGHER EDUCATION

TOTAL FUNDING

The Budget continues to provide sufficient resources for all higher education segments to continue to educate and train the workforce of tomorrow with high quality and at reasonable cost.

The Budget provides for total Higher Education funding of \$20.7 billion from all revenue sources. UC funding totals over \$5.6 billion, including almost \$3.3 billion General Fund. (See Figure HED-01). The amount budgeted from the General Fund for UC is about the same as in 2007-08. CSU funding totals over \$4.5 billion, including almost \$3 billion General Fund. The amount budgeted from the General Fund for CSU is the same as provided in 2007-08. California Community College (CCC) funding totals over \$9.2 billion, including over \$6.7 billion from General Fund and Proposition 98 sources, of which almost \$4.7 billion is from the General Fund alone. The amount budgeted from General Fund and Proposition 98 sources for CCC is 4.9 percent above the revised 2007-08 level.

UC AND CSU FEES AND ENROLLMENTS

For 2008-09, the student fee provisions of the Compact are maintained and the segments will continue to take new students reflecting the following:

- Fee Levels—Undergraduate fees increase to \$7,126 (7.4 percent) for UC and to \$3,048 (10 percent) for CSU. Graduate fees increase to \$7,986 (7.4 percent)

Figure HED-01
Higher Education Expenditures
General Fund, Lottery Funds, State School Fund,
Local Revenues and Student Fees
(Dollars in Millions)

						Change from 2007-08	
	2004-05	2005-06	2006-07	2007-08	2008-09	Dollar	Percent
University of California ^{1/}							
Total Funds	\$4,514.7	\$4,812.4	\$5,115.1	\$5,441.0	\$5,611.8	\$170.9	3.1%
General Fund	2,698.7	2,838.6	3,069.3	3,259.3	3,250.3	-\$9.0	-0.3%
California State University ^{1/}							
Total Funds	3,586.3	3,834.5	4,136.2	4,406.5	4,539.3	\$132.8	3.0%
General Fund	2,475.8	2,596.0	2,808.0	2,970.7	2,970.7	\$0.0	0.0%
Community Colleges							
Total Funds	7,300.8	7,764.8	8,668.6	8,897.8	9,227.0	\$329.2	3.7%
General Fund & P98 ^{2/}	5,031.9	5,745.1	6,215.2	6,433.7	6,746.2	\$312.5	4.9%
Student Aid Commission (GF)							
Total Funds	776.5	830.8	833.3	873.3	899.6	\$26.3	3.0%
General Fund	595.4	733.5	794.8	842.9	837.5	-\$5.4	-0.6%
Other Higher Education ^{3/}							
Total Funds	301.1	307.1	325.5	354.2	446.4	\$92.2	26.0%
General Fund	274.9	280.4	298.0	324.4	412.3	\$87.9	27.1%
Total Funds	\$16,479.4	\$17,549.6	\$19,078.7	\$19,972.8	\$20,724.1	\$751.3	3.8%
General Fund	\$11,076.7	\$12,193.6	\$13,185.3	\$13,830.9	\$14,217.0	\$386.0	2.8%

^{1/} For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income, but exclude self-supporting functions such as auxiliary enterprises and extramural programs among others. This provides consistency in comparing magnitudes and growth among the various segments of education.

^{2/} For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue, as a component of the state's obligation under Proposition 98.

^{3/} The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

for UC, to \$3,540 (10 percent) for CSU teacher preparation students, and to \$3,756 (10 percent) for other CSU graduate programs. Despite these increases, fees at UC remain below the average of other comparable research universities and CSU fees remain the lowest among comparable comprehensive public colleges.

- Enrollment Growth—While the budget does not provide additional enrollment growth funding, the segments plan to meet or exceed the budgeted levels of instruction delivery funded in 2007-08. Specifically, the UC is continuing to accept all qualified students despite being overenrolled by over 4,000 FTE students in 2007-08. CSU appears to be sustaining overenrollments in 2008-09 of 8,000 FTE students, notwithstanding their implementation of enrollment strategies that were intended to maintain access only for fully qualified students applying within established timeframes.

COMMUNITY COLLEGES

The Budget continues to recognize the extraordinary role of the Community Colleges in addressing the economic well-being of California. For the fourth year in a row, the Budget increases the level of investment in this higher education segment, by providing funding for enrollment growth, funding to backfill property tax shortfalls, and continued funding for important statewide initiatives that address the nursing shortage, career technical education, and increasing success rates for students who lack adequate preparation for college-level work. In total, the Budget provides General Fund and Proposition 98-related increases of over \$312 million compared to 2007-08, including \$21.6 million in one-time resources from the Proposition 98 reversion account. These increases are detailed in the traditional highlights for the Community Colleges below.

Student fees remain at \$20 per unit and continue to be the lowest in the nation—just 22 percent of the national average.

CAREER TECHNICAL EDUCATION INITIATIVE

The Budget continues substantial investments in career technical education (CTE), consistent with the Governor's initiative begun in 2005-06 which seeks to improve high school vocational programs that articulate with community college career programs. The Budget provides over \$70 million, consisting of \$20 million in ongoing funds in the Community Colleges budget, the second increment of \$38 million from the *CTA vs. Schwarzenegger* settlement appropriated by Chapter 751, Statutes of 2006, and \$12.5 million one-time pursuant to trailer legislation from the Public Interest Research, Development and Demonstration Fund. A specific 2008-09 expenditure plan is currently being finalized by the Chancellor's Office in conjunction with the State Department of Education, and is anticipated to include additional grant opportunities for new CTE programs and curriculum, expansion of career pathways and articulation, CTE teacher recruitment and retention, efforts to expand business and industry engagement in CTE, and funding for 61 new "Green" Partnership Academies. Overall, the expenditure plan addresses known problems that currently limit student access to programs that prepare them for employment in high-demand technical careers and further skill development in postsecondary education.

NURSE EDUCATION INITIATIVE

The Budget continues substantial investments to address the statewide nursing shortage in the higher education segments and financial aid programs totaling almost \$36.6 million. This includes \$28.3 million in total funding for Community Colleges to expand nursing enrollments and address student attrition. The Budget also provides \$6.3 million for CSU and \$1.7 million for UC to continue expansion of nursing enrollments, and authorization for the Student Aid Commission to award new cohorts of 100 loan assumption warrants each for the State Nursing Assumption Program of Loans for Education (SNAPLE) and for the Nurses in State Facilities APLE program to help meet clinical nursing position needs for state agencies. It is noted that \$2.5 million of the budget-year CTE funding plan is reserved to support third-year grants for the K-12 nursing career pathway program for school districts. With this budget, the cumulative funding provided over the last five years above normal enrollment growth in all education segments totals approximately \$154.7 million. Counting investments of over \$40 million made in the last five years in the Office of Statewide Health Planning and Development and the Employment Development Department, cumulative investments for the Governor's Nursing Initiative total \$195 million.

CCC STUDENT SUCCESS INITIATIVE

The Budget continues \$33.1 million Proposition 98 General Fund for the Community Colleges authorized by Chapter 489, Statutes of 2007 to increase the rate of successful outcomes for students who are not adequately prepared for college-level work. Despite the availability of remedial courses, most of the students that enter college without the basic skills necessary to succeed in college do not persist long enough to complete a meaningful outcome such as attainment of an Associates Degree, a skill certificate necessary to enter a high-paying career, or completion of the required courses necessary to transfer to a four-year postsecondary institution. This circumstance threatens our future economic competitiveness and under-optimizes the potential of many of California's young adults.

SALE OF EdFUND

Chapter 182, Statutes of 2007 authorized the sale, or other transaction, of the Student Aid Commission's loan guarantee function and nonprofit auxiliary organization, collectively known as EdFund, in order to maximize the value of the state's assets

related to implementation of the Federal Family Education Loan Program. The sale is anticipated to generate a significant amount to help balance future budgets. Although the sale has been postponed due to a variety of factors affecting the loan guaranty industry, the Administration is continuing its efforts, pursuant to trailer bill legislation that extends the sale authorization, and anticipates that a sale will be completed no later than the 2009-10 fiscal year. Recently, an RFP for a new sale advisor was released. As a consequence of this prospective transaction, the budget resumes General Fund resources to finance the Commission's state operations budget.

UNIVERSITY OF CALIFORNIA

The Budget provides total funding from all sources of \$5.6 billion for UC, an increase of \$170.9 million or 3.1 percent above the 2007-08 level. This funding level includes almost \$3.3 billion General Fund, reflecting a decrease of \$9 million or 0.3 percent below the 2007-08 level. The Budget includes the following significant General Fund and fee-related amounts for UC:

CURRENT YEAR

- \$1.5 million one-time reduction to welfare policy research pursuant to Chapter 1 of the 2008 Third Extraordinary Session to recognize the availability of prior year funding for this purpose.
- \$13.2 million reduction for lower than anticipated lease purchase payments.

BUDGET YEAR

- \$233.4 million net budget balancing reduction from the workload budget. This reduces institutional support by 10 percent or \$32.3 million and the remaining \$201.1 million is unallocated, thereby allowing the University to determine how best to balance competing needs. The workload budget included adjustments pursuant to the Higher Education Compact for a 2.5 percent increase in enrollments (\$56.4 million) and a 5 percent increase for basic budget support and core needs that support the instructional program (\$154.8 million).
- \$124.8 million increase in fee revenue associated with the 7.4-percent fee increase for undergraduate, graduate, and professional school students. One-third of the revenue generated by the fee increases for undergraduate and professional programs and 45 percent of the revenue generated by the graduate fee increase will be set aside for financial aid.

HIGHER EDUCATION

- \$10 million in continued funding, a reduction of \$4 million from 2007-08, for costs associated with sustaining UC Merced operations for a total funding level of \$20 million.
- \$1.7 million in continued funding to support an increase of 396 enrollments in undergraduate and graduate nursing programs begun in prior years.
- \$1.1 million in continued funding for the Science and Math Teacher Initiative that began with the 2005 Budget Act.
- \$975,000 increase for the next cohort of 65 students for the PRIME Program, which targets prospective medical doctors for underserved populations. Total funding for PRIME is \$2 million.
- \$970,000 increase in lease purchase payments.
- \$11 million increase for annuitant health benefits.
- Sufficient funding is included, pursuant to the May Revision, for UC's implementation of the Teacher Performance Assessments that are to be implemented in 2008-09 pursuant to Chapter 517, Statutes of 2006.

CALIFORNIA STATE UNIVERSITY

The Budget provides total funding from all sources of \$4.5 billion for CSU, an increase of \$132.8 million or 3 percent above the 2007-08 level. This funding level includes \$3 billion General Fund, the same amount budgeted in 2007-08. The Budget includes the following significant General Fund and fee-related amounts for CSU:

CURRENT YEAR

- \$8.6 million decrease in retirement costs.
- \$6.6 million decrease in lease purchase payments.

BUDGET YEAR

- \$215.3 million net budget balancing reduction from the workload budget. This reduces institutional support by 10 percent or \$43.2 million and the remaining \$172.1 million is unallocated, thereby allowing the CSU to determine how best to balance competing needs. The workload budget included adjustments pursuant to the Higher Education Compact for a 2.5-percent increase in enrollments (\$70 million)

and a 5-percent increase for basic budget support and core needs that support the instructional program (\$146.2 million).

- \$109.8 million increase in fee revenue associated with a 10-percent fee increase for undergraduate, graduate, and teacher credential candidates. One-third of the revenue generated by the fee increases will be set aside for financial aid.
- \$6.3 million in continued funding to support an increase of 785 enrollments in undergraduate and graduate nursing programs begun in prior years.
- \$2.7 million in continued funding for the Science and Math Teacher Initiative that began with the 2005 Budget Act.
- \$8.6 million to continue the decrease in retirement costs.
- \$4.9 million reduction in lease purchase payments.
- Sufficient funding is included, pursuant to the May Revision, for CSU's implementation of the Teacher Performance Assessments that are to be implemented in 2008-09 pursuant to Chapter 517, Statutes of 2006.

CALIFORNIA COMMUNITY COLLEGES

The Budget provides total funding from all sources of more than \$9.2 billion for CCC, an increase of more than \$329 million or 3.7 percent above the 2007-08 level. This funding level includes \$312.5 million net General Fund and Proposition 98-related increases or 4.9 percent above the 2007-08 level. The Budget includes the following significant Proposition 98 General Fund amounts for CCC:

CURRENT YEAR

- \$69 million increase from one-time Proposition 98 savings to backfill an estimated 2007-08 reduction in property tax revenue based on revised estimates. This amount is available for expenditure in the 2008-09 fiscal year.
- \$18.4 million in savings was captured in the Special Session pursuant to Chapter 2 of the 2008 Third Extraordinary Session from undersubscribed programs or available balances in programs, including \$10 million for Career Technical Education, \$6.1 million from the Economic Development program, and \$1.1 million from Nursing Program support and \$1.2 million from growth funds for CAHSEE remediation programs at community colleges.

BUDGET YEAR

- \$39.8 million increase to provide a 0.68-percent Cost-of-Living Adjustment (COLA) for general apportionments.
- \$113.5 million increase (almost 2 percent) for enrollment growth for general apportionments. This funding will enable CCC to enroll more than 23,000 additional full-time-equivalent (FTE) students. This amount reflects a budget balancing reduction from the workload budget's 3-percent growth amount.
- \$28.3 million in continued funding (including \$6 million in Workforce Investment Act funds) to support increases of almost 4,000 nursing enrollments as well as diagnostic and assessment services aimed at reducing nursing student attrition.
- \$1.9 million in continued funding for increased textbook assistance for low-income students that was initiated in 2007-08.
- \$570,000 in continued funding for the Fiscal Crisis Management Assistance Team to prevent insolvency for financially struggling districts that was initiated in 2007-08.

The Budget also provides for the following changes from other state sources:

- \$2.7 million to reflect an interagency agreement with the California Department of Corrections and Rehabilitation to provide training for prison staff that play key roles in the rehabilitation process, consistent with strategies authorized by Chapter 7, Statutes of 2007.
- \$12.5 million in one-time funding is appropriated, pursuant to trailer bill legislation, to the Chancellor's Office from the Public Interest Research, Development and Demonstration Fund to support for three years an interagency agreement with the Department of Education to develop up to 61 new "Green" Partnership Academy Programs throughout the state. These academies will work in conjunction with clean technology and energy businesses to provide cutting-edge training for K-12 students that will prepare them for careers in water conservation, renewable energy, pollution reduction, and other green sectors.
- \$531,000 unallocated General Fund budget balancing reduction to the Chancellor's Office that will be accommodated by reducing temporary staff, holding less essential positions open, and by eliminating non-essential travel and other expenditures.

HASTINGS COLLEGE OF THE LAW

The Budget provides total funding from all sources of \$44.6 million, an increase of \$4.3 million or 10.5 percent above the 2007-08 level. This funding includes \$10.6 million General Fund, reflecting the same funding level as that provided in 2007-08.

The Budget includes the following significant General Fund and fee-related adjustments for Hastings College of the Law:

- \$608,000 net budget balancing reduction from the workload budget. This reduces institutional support by 10 percent or \$252,000 and the remaining \$356,000 is unallocated, thereby allowing Hastings to determine how best to balance competing needs. The workload budget included adjustments pursuant to the Higher Education Compact for a 5-percent increase for basic budget support and core needs that support the instructional program (\$531,000).
- \$5.3 million increase in fee revenue associated with an 18-percent fee increase. One-third of the fee revenue generated by the increase will be set aside for financial aid.

STUDENT AID COMMISSION

The Budget provides total funding from all sources of \$899.6 million, an increase of \$26.3 million or 3 percent above the revised 2007-08 level. This funding includes \$837.5 million General Fund, reflecting a reduction of \$5.4 million or 0.6 percent below the revised 2007-08 level. The Budget includes the following significant adjustments for the Student Aid Commission:

CURRENT YEAR

- \$30.2 million in savings in the CalGrant and APLE programs.
- \$157,000 increase to the Commission's state operations budget reflecting standard baseline adjustments.

BUDGET YEAR

The budget includes the following General Fund and other local assistance adjustments:

- \$26.7 million increase over the revised 2007-08 level for anticipated growth in the CalGrant Program, reflecting the undergraduate fee increases of 7.4 percent and 10 percent at UC and CSU, respectively.
- \$24 million one-time savings by shifting a portion of CalGrant costs to the Student Loan Operating Fund.
- \$6.3 million savings by shifting the cost of the Commission's financial aid awareness program known as CalSOAP from the General Fund to a new Federal Access Challenge Grant. Total Funding for CalSOAP is \$7.3 million which includes a \$1 million increase for a new awareness component to promote career technical education opportunities in postsecondary education.
- \$330,000 increase, also from the new Federal Access Challenge Grant, to fund the Cash-for-College program pursuant to Chapter 741, Statutes of 2007.
- Authorization for a new cohort of 7,200 warrants for the Assumption Program of Loans for Education (APLE) to help increase the teacher supply in critical shortage areas including math and science (payments estimated to begin no sooner than 2010-11).
- Authorization for 100 new warrants for the State Nursing Assumption Program of Loans for Education (SNAPLE) (payments estimated to begin no sooner than 2010-11).
- Authorization for 100 new warrants for the Nurses in State Facilities APLE program (payments estimated to begin no sooner than 2010-11).

The budget includes the following General Fund state operations adjustments:

- \$1.5 million in unallocated budget balancing reductions from the workload budget. This approach allows the Commission to determine how best to balance competing needs to preserve delivery of CalGrants.
- One-time funding of \$1 million to accommodate moving costs and furnishings associated with a relocation of the Commission.
- \$1 million savings by shifting the cost of the Commission's Federal Programs unit from General Fund to the Student Loan Operating Fund. The budget also reflects a reduction of \$500,000 from the amount budgeted in 2007-08 to align costs for currently authorized staff.

STATEWIDE ISSUES

This section includes issues that affect multiple departments in various major program areas.

GENERAL FUND REDUCTION

Control Section 4.07 reduces General Fund appropriations in fiscal year 2008-09 by a total of \$50 million. To the extent practical, these reductions shall capture savings in departmental personal services budgets resulting from position vacancies. If there are not sufficient General Fund reductions related to position vacancies to reach \$50 million, then additional General Fund reductions will be made to achieve the required reduction.

CASH MANAGEMENT IMPROVEMENT PLAN

In the past, the state disbursed significantly more General Fund dollars than what had been collected between the months of July and March of each year. This resulted in a very low cash balance by the end of each March and necessitated the issuance of large amounts of external borrowing to cover cash needs. The Administration proposed and the Legislature approved a plan to improve cash management to smooth cash flow imbalances and to reduce the amount of external borrowing the state will need to meet its cash needs in 2008-09. To smooth out the cash flow imbalances, certain payments for the following programs will be shifted during the year: Education (K through 12, excluding Child Development), the University of California, Community Colleges,

the Williamson Act, and Citizens' Option for Public Safety/Juvenile Justice Crime Prevention Act.

The plan will reduce the amount of external borrowing by \$3 billion to \$4 billion in 2008-09, and will result in savings of tens of millions of dollars, depending on interest rates and external borrowing issuance timing. This plan could potentially result in improving rating agencies' perception of the state's credit and saving millions in associated borrowing costs.

FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

The statewide integrated Financial Information System for California (FI\$Cal) is a multiyear information technology project that will replace and integrate the functions of numerous aging fiscal management systems in state government. In so doing, FI\$Cal will enable the state to avoid major costs to replace those systems. The project will also prepare the state's financial management employees to operate in the new integrated environment. The Budget includes an increase of \$37.7 million from the FI\$Cal Internal Services Fund and 208.3 positions for continued procurement, project team development and training and baseline documentation efforts for the FI\$Cal project.

HEALTH BENEFITS FOR ANNUITANTS AND ACTIVE EMPLOYEES

The Budget includes savings of \$91.7 million General Fund for 2008-09 resulting from CalPERS Board approved Health Benefit Rate increases being lower than originally projected and \$17.5 million General Fund savings from shifting health premium payments to the Public Employees' Contingency Reserve Fund (Medicare Part D).

REIMBURSABLE STATE MANDATES PROGRAM

ESTIMATED CLAIMS

The Budget includes a one-time savings of \$75 million by eliminating payments for estimated reimbursement claims. This change to the local government reimbursement process does not reduce the total reimbursement amounts payable to local governments.

PRIOR YEAR MANDATE REIMBURSEMENT CLAIMS

The California Constitution requires the state to reimburse cities, counties, and special districts for mandated costs incurred prior to 2004-05 over a term of years. Chapter 72 of the Statutes of 2005 requires the payment of mandated costs incurred prior to 2004-05 to begin in 2006-07 and to be paid over a term of 15 years. The Budget delays the third payment of these claims one year and results in one-time savings of \$75 million. The remaining estimated cost of claims for mandated costs incurred prior to 2004-05 is \$956 million.

SUMMARY CHARTS

This section provides various statewide budget charts and tables.

Figure-SUM-01
General Fund Budget Summary
(Dollars in Millions)

	<u>2007-08</u>	<u>2008-09</u>
Prior Year Balance	\$4,305	\$3,999
Revenues and Transfers	<u>\$103,027</u>	<u>\$101,991</u>
Total Resources Available	\$107,332	\$105,990
Non-Proposition 98 Expenditures	\$61,781	\$61,458
Proposition 98 Expenditures	<u>\$41,552</u>	<u>\$41,943</u>
Total Expenditures	\$103,333	\$103,401
Fund Balance	\$3,999	\$2,589
Reserve for Liquidation of Encumbrances	\$885	\$885
Special Fund for Economic Uncertainties	\$3,113	\$1,703
Budget Stabilization Account^{1/}	-	-
Total Available Reserve	\$3,113	\$1,703

1/ In 2007-08, includes the transfer of \$1,494 million from Budget Stabilization Account back to the General Fund under Control Section 35.60. Reflects suspension of transfer in 2008-09.

Figure-SUM-02
2008-09 Revenue Sources
(Dollars in Millions)

	<u>General Fund</u>	<u>Special Funds</u>	<u>Total</u>	<u>Change From 2007-08</u>
Personal Income Tax	\$55,720	\$1,449	\$57,169	\$1,306
Sales Tax	27,111	6,464	33,575	1,386
Corporation Tax	13,073	-	13,073	1,147
Highway Users Taxes	-	3,383	3,383	-18
Motor Vehicle Fees	29	5,937	5,966	638
Insurance Tax	2,029	-	2,029	-142
Liquor Tax	341	-	341	7
Tobacco Taxes	114	934	1,048	2
Other	3,574	7,980	11,554	-3,801
Total	\$101,991	\$26,147	\$128,138	\$525

Note: Numbers may not add due to rounding.

Figure-SUM-03
2008-09 Total Expenditures by Agency
 (Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$3,816	\$2,157	\$411	\$6,384
State and Consumer Services	563	862	18	1,443
Business, Transportation & Housing	1,628	6,946	4,186	12,760
Resources	1,832	2,222	1,626	5,680
Environmental Protection	81	1,151	397	1,629
Health and Human Services	31,121	8,125	150	39,396
Corrections and Rehabilitation	10,342	22	1	10,365
K-12 Education	41,579	162	4,427	46,168
Higher Education	12,113	41	1,404	13,558
Labor and Workforce Development	98	334	-	432
General Government	228	6,166	281	6,675
Total	\$103,401	\$28,188	\$12,901	\$144,490

Note: Numbers may not add due to rounding.

Figure SUM-04
General Fund Expenditures by Agency
 (Dollars in Millions)

	2007-08	2008-09	Change	%
Legislative, Judicial, Executive	\$3,903	\$3,816	-\$87	-2.2%
State and Consumer Services	598	563	-35	-5.9%
Business, Transportation & Housing	1,502	1,628	126	8.4%
Resources	1,972	1,832	-140	-7.1%
Environmental Protection	90	81	-9	-10.0%
Health and Human Services	29,726	31,121	1,395	4.7%
Corrections and Rehabilitation	10,209	10,342	133	1.3%
K-12 Education	42,233	41,579	-654	-1.5%
Higher Education	11,819	12,113	294	2.5%
Labor and Workforce Development	104	98	-6	-5.8%
General Government	1,177	228	-949	-80.6%
Total	\$103,333	\$103,401	\$68	0.1%

Note: Numbers may not add due to rounding.

Figure SUM-05
Vetoed by Agency
General, Special, and Bond Funds
(Dollars in Millions)

Agency	Legislative Spending Plan	Governor's Vetoes		Enacted Budget
		General Fund	Special and Bond Funds	Totals
Legislative, Judicial, Executive	\$6,384	-	-	\$6,384
State and Consumer Services	1,444	-1	-	1,443
Business, Transportation & Housing	12,967	-5	-202	12,760
Resources	5,691	-9	-2	5,680
Environmental Protection	1,632	-3	-	1,629
Health and Human Services	39,549	-153	-	39,396
Corrections and Rehabilitation	10,393	-28	-	10,365
K-12 Education	46,194	-26	-	46,168
Higher Education	13,564	-6	-	13,558
Labor and Workforce Development	432	-	-	432
General Government				
Non-Agency Departments	1,887	-4	-	1,883
Tax Relief/Local Government	3,140	-191	-	2,949
Statewide Expenditures	1,927	-84	-	1,843
Total	\$145,204	-\$510	-\$204	\$144,490

Note: Numbers may not add due to rounding.

EXECUTIVE OFFICE

Michael C. Genest

Director of Finance
(916) 445-4141

Ana J. Matosantos

Chief Deputy Director, Budget
(916) 445-9862

Anne Sheehan

Chief Deputy Director, Policy
(916) 445-8582

Fred Klass

Chief Operating Officer
(916) 445-4923

Jennifer Rockwell

Special Counsel
(916) 324-4856

Thomas Sheehy

Deputy Director, Legislation
(916) 445-8610

H.D. Palmer

Deputy Director, External Affairs
(916) 323-0648

BUDGET PROGRAM AREAS

Revenue Forecasting; Economic
Projections; Demographic Data;
Business, Transportation, and
Housing; Local Government

Mark Hill, PBM* (916) 322-2263

Education

Jeannie Oropeza, PBM (916) 445-0328

Health and Human Services

Lisa Ann L. Mangat, PBM (916) 445-6423

Corrections and Rehabilitation,
Judicial, Justice, General Government,
and State and Consumer Services

Todd Jerue, PBM (916) 445-8913

Resources, Energy, and Environment,
and Capital Outlay

Karen Finn, PBM (916) 324-0043

Employee Relations, Retirement
Systems, Departmental Administration,
Local Mandates, Audits and Evaluations,
and Information Technology Consulting

Diana L. Ducay, PBM (916) 445-3274

Budget Planning and Preparation,
Cash Management, Statewide Issues
CALSTARS, and FSCU

Veronica Chung-Ng, PBM (916) 445-5332

Financial Information System
for California

Titus Toyama, PE** (916) 445-8918

*Program Budget Manager

** Project Executive

State of California
Governor's Office

I object to the following appropriations contained in Assembly Bill 1781.

Item 0690-011-0214—For support of Office of Emergency Services. I delete this item.

This item would authorize a \$30,000,000 loan from the Restitution Fund to the Emergency Response Fund. The final budget package does not create the Emergency Response Fund nor appropriate any funding from it. However, the final budget package does include this loan, which is no longer necessary. Therefore, on a technical basis, I must delete this item.

Item 0690-101-6061—For local assistance, Office of Emergency Services.

I revise this item by deleting Provision 1. This Budget Bill provision is unnecessary, as it simply restates existing law. Specifically, this provision would require the allocation of funding from the Transit System Safety, Security, and Disaster Response Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006 to be consistent with the provisions of Chapter 181, Statutes of 2007. Chapter 181 designated administering agencies for the bond funds authorized by the voters via Proposition 1B in November 2006, and imposed various requirements on these agencies for the allocation of the bond funds.

Item 0690-101-6073—For local assistance, Office of Emergency Services.

I revise this item by deleting Provision 1. This Budget Bill provision is unnecessary, as it simply restates existing law. Specifically, this provision would require the allocation of funding from the Port and Maritime Security Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006 to be consistent with the provisions of Chapter 181, Statutes of 2007. Chapter 181 designated administering agencies for the bond funds authorized by the voters via Proposition 1B in November 2006, and imposed various requirements on these agencies for the allocation of the bond funds.

Item 1700-001-0001—For support of Department of Fair Employment and Housing.

I reduce this item from \$17,813,000 to \$16,869,000 by reducing:

- (1) 50-Administration of Civil Rights Law from \$23,668,000 to \$22,624,000
- (2) Amount payable from the Federal Trust fund (Item 1700-001-0890) from -\$5,855,000 to -\$5,755,000.

I am reducing this item by \$944,000 which will result in the loss of 9.5 personnel years for the enforcement of civil rights. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a

result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am also revising this item to conform to the action I have taken in 1700-001-0890.

Item 1700-001-0890—For support of Department of Fair Employment and Housing. I reduce this item from \$5,855,000 to \$5,755,000.

I am revising this item to conform to the action I have taken in Item 1700-001-0001 to reflect a reduction in federal funds for processing dual filed housing and employment discrimination claims.

Item 1730-001-0044—For support of Franchise Tax Board. I reduce this item from \$2,991,000 to \$2,844,000 to make a technical correction to the Budget Bill.

This technical veto will conform with the Legislature's intent and is consistent with the legislative action taken in Item 1730-001-0001.

Item 1730-001-0064—For support of Franchise Tax Board. I reduce this item from \$5,615,000 to \$5,342,000 to make a technical correction to the Budget Bill.

This technical veto will conform with the Legislature's intent and is consistent with the legislative action taken in Item 1730-001-0001.

Item 2240-001-0001—For support of Housing and Community Development. I reduce this item from \$4,784,000 to \$4,023,000 by reducing:

(1) 10-Codes and Standards Program from \$29,964,000 to \$29,118,000.

(7) Reimbursements from -\$1,132,000 to -\$1,047,000,

and by deleting Provision 2.

I am reducing this item by \$761,000 for the Employee Housing Program. While the budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am also eliminating the Legislature's augmentation of reimbursements for this item by \$85,000 and, consistent with this action, I am deleting Provision 2 that expresses legislative intent that the Department of Housing and Community Development increase fees paid by employee housing providers to offset program reductions.

Item 2240-101-0001—For local assistance, Department of Housing and Community Development. I reduce this item from \$6,316,000 to \$5,973,000 by reducing:

- (1) 20-Financial Assistance Program from \$173,116,000 to \$172,773,000, and deleting Provision 1.

I am reducing this item by \$343,000 to reinstate the budget-balancing reduction to the migrant housing operations program that I proposed. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 2240-101-0890—For local assistance, Department of Housing and Community Development. I revise this item by deleting Provision 2.

I am deleting Provision 2 which would specify that \$1,800,000 of the amount appropriated in this item shall be made available upon receipt of a federal grant. This language is unnecessary because the Department of Housing and Community Development cannot make the expenditure unless the federal grant is received.

Item 2240-101-6069—For local assistance, Department of Housing and Community Development. I revise this item by deleting Provision 2.

I am deleting Provision 2, which would specify that funding in this item shall be subject to legislative review and approval of a request by the Department of Housing and Community Development. This language is unnecessary.

Item 2240-101-9736—For local assistance, Department of Housing and Community Development. I revise this item by deleting Provision 2.

I am deleting Provision 2, which would specify that funding in this item shall be subject to legislative review and approval of a request by the Department of Housing and Community Development. This language is unnecessary.

Item 2240-102-6038—For local assistance, Department of Housing and Community Development. I revise this item by deleting Provision 2.

I am deleting Provision 2, which would specify that funding for the Building Equity in Neighborhoods program shall be subject to legislative review and approval of a request by the Department of Housing and Community Development. This language is unnecessary because the funding proposed in the Budget is always subject to legislative review and approval.

Item 2240-105-0001—For transfer, as an expenditure, upon order of the Director of Finance, to the Emergency Housing and Assistance Fund. I delete this item.

I am reducing this item by \$401,000 to reinstate the budget-balancing reduction to the state grant program for local emergency shelters that I proposed. I am further reducing this item by \$3,599,000. While the budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 2320-001-0317—For support of Department of Real Estate. I revise this item by deleting Provision 2.

I am deleting Provision 2, which would require the Department of Real Estate to report workload and enforcement data to the Legislature.

This reporting requirement would result in an expenditure increase without regard to the availability of resources. Consequently, I am vetoing this language. Nevertheless, in recognition of the Legislature's desire to obtain this information, I am instructing the Commissioner to comply with the legislative request for this report to the extent compliance can be achieved using existing resources and without impairing the Department of Real Estate's ability to perform its essential functions.

Item 2600-001-0042—For support of California Transportation Commission. I revise this item by deleting Provision 1.

While the Legislature approved the \$100,000 augmentation to fund a contract with a financial consultant to assist in reviewing the eligibility of high-occupancy toll lane project applications, it also added provisional language requiring that these funds only be used for this purpose. While this provisional language is consistent with the Administration's intended use of this funding, it is unnecessary.

Item 2660-104-6063—For local assistance, Department of Transportation. I reduce this item from \$62,999,000 to \$61,299,000 by reducing:

- (1) 20.30-Highway Transportation-Local Assistance from \$62,999,000 to \$61,299,000.

Item 2660-302-0042—For capital outlay, Department of Transportation. I reduce this item from \$847,800,000 to \$747,800,000 by reducing:

- (1) 20-Highway Transportation from \$1,897,800,000 to \$1,797,800,000, and
 - (a) State Highway Operation and Protection Program (\$1,897,800,000) to (\$1,797,800,000).

I am reducing this item by \$100,000,000 to reflect the lower estimated revenues that the State Highway Account is projected to receive from excise taxes on fuel. Continuing increases in prices have reduced consumption, resulting in less tax revenue.

Item 3340-001-0001—For support of California Conservation Corps. I reduce this item from \$35,874,000 to \$33,874,000 by reducing:

- (1) 10-Training and Work Program from \$65,032,000 to \$63,032,000.

I am reducing this item by \$2,000,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law, and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Nevertheless, I am sustaining the legislative augmentation of an additional \$1,000,000 from the Collins-Dugan California Conservation Corps Reimbursement Account to maintain three non-residential facilities and 75 corpsmember slots.

Item 3600-001-0001—For support of Department of Fish and Game. I reduce this item from \$77,301,000 to \$73,410,000 by reducing:

- (1) 20-Biodiversity Conservation Program from \$150,694,000 to \$147,572,000;
- (2) 25-Hunting, Fishing, and Public Use from \$71,276,000 to \$70,737,000;
- (3) 30-Management of Department Lands and Facilities from \$48,009,000 to \$46,895,000;
- (4) 40-Enforcement from \$61,764,000 to \$61,648,000;
- (6) 70.01-Administration from \$44,359,000 to \$43,672,000;
- (7) 70.02-Distributed Administration from -\$44,359,000 to -\$43,672,000; and
- (21) Amount payable from the Hatchery and Inland Fisheries Fund (Item 3600-001-3103) from -\$17,297,000 to -\$16,297,000.

I am reducing this item by \$3,891,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law, and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

In addition, I am reducing \$1,000,000 from the Hatchery and Inland Fisheries Fund.

Item 3600-001-3103—For support of Department of Fish and Game. I reduce this item from \$17,297,000 to \$16,297,000.

I am reducing this item by \$1,000,000 to conform to the action I have taken in Item 3600-001-0001.

Item 3720-001-0001—For support of California Coastal Commission. I reduce this item from \$11,809,000 to \$11,192,000 by reducing:

- (1) 10-Coastal Management Program from \$16,630,000 to \$16,049,000;
- (2) 20-Coastal Energy Program from \$1,112,000 to \$1,076,000;
- (3) 30.01-Administration from \$1,914,000 to \$1,827,000; and
- (4) 30.02 – Distributed Administration from -\$1,814,000 to -\$1,727,000.

I am reducing this item by \$617,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 3780-001-0001—For support of Native American Heritage Commission. I reduce this item from \$786,000 to \$707,000 by reducing:

- (1) 10-Native American Heritage Commission from \$792,000 to \$713,000.

I am reducing this item by \$79,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law, and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 3790-001-0001—For support of Department of Parks and Recreation. I revise this item by reducing:

- (1) For support of the Department of Parks and Recreation from \$432,009,000 to \$431,099,000,

and by deleting

- (4.5) Amount payable from the Motor Vehicle Account, State Transportation Fund (Item 3790-001-0044) (-\$910,000).

I am revising this item to conform to the action I have taken in Item 3790-001-0044.

Item 3790-001-0044—For support of Department of Parks and Recreation. I delete this item.

I am deleting this item of appropriation which acts as a \$910,000 legislative funding shift from the General Fund to the Motor Vehicle Account (MVA), State Transportation Fund to enable the Department of Parks and Recreation to comply with the State Air Resources Board's new diesel particulate matter emission regulations for on-road heavy-duty diesel vehicles. I believe regulatory compliance activities should be funded by the department's own funding sources. Consequently, the MVA is not an appropriate fund source for this purpose.

Item 3810-001-0140—For support of Santa Monica Mountains Conservancy.

I am sustaining the provisional language added by the Legislature providing that the Santa Monica Mountains Conservancy (Conservancy) shall reimburse to the Attorney General's Office (AG) for costs associated with grant reviews and attending meetings.

The clear intent of this language is to create an incentive for the AG to provide legal services to the Conservancy and to have the Conservancy to reimburse the AG for its costs related to Proposition 84. However, this new language inadvertently appears to conflict with the language in Provision 1, which requires the AG to otherwise provide legal services to the Conservancy as if it were a General Fund department.

Therefore, by sustaining this language, it is my intent that the Conservancy reimburse the AG for costs associated with Proposition 84 grant reviews and the associated meetings, and that all other legal costs be funded in a manner consistent with past practice. The Department of Finance will revisit this issue next budget year.

Item 3900-001-0001—For support of State Air Resources Board. I reduce this item from \$2,189,000 to \$189,000.

I am reducing this item by \$2,000,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is

adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 3940-001-0001—For support of State Water Resources Control Board. I revise this item by deleting sub-schedules (a) and (b) under Program 10—Water Quality, and Provision 2 of this section.

I am eliminating Budget Act language that displays the allocations to the state's nine regional boards and requires additional actions should a reallocation of resources be necessary. The Regional Boards develop and enforce the water quality objectives and implementation plans that are developed by the State Water Board, recognizing local differences in climate, topography, geology and hydrology. The joint authority of water allocation and water quality protection enables the State Water Board to provide comprehensive protection for California's waters. This centralized structure allows the State Board to implement program priorities and to respond to statewide needs through the Regional Board. The State Board should not require a change in authority to move funds from one region to another should events occur that make it necessary -- such as a fire, a flood, or a change in priorities. Creating separate line items in the budget for each Regional Board would challenge the State Board's ability to manage and prioritize the needs of the whole state. Alternatively, the Water Board can address the Legislature's intent to better understand the role of the regional water boards through an anticipated strategic and structural reorganization the Water Board is planning through its Water Quality Initiative.

Item 3960-001-0001—For support of Toxic Substances Control. I reduce this item from \$23,325,000 to \$22,170,000.

I am reducing this item by \$1,155,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am revising the dollar amount specified in Provision 1 to conform to the action taken in this item.

"The Director of Toxic Substances Control may expend from this item: (a) \$11,604,000 for the following activities at the federal Stringfellow Superfund site: (1) operation and maintenance of pretreatment plants to treat contaminated groundwater extracted from the site, (2) site maintenance and groundwater monitoring, and (3) implementation of work to stabilize the site, and (b) ~~\$4,266,000~~ \$3,111,000 for the operation of the Illegal Drug Laboratory Removal Program."

Item 3960-001-0014—For support of Toxic Substances Control. I revise this item by reducing:

- (1) 12-Site Mitigation and Brownfields Reuse from \$89,426,000 to \$88,271,000.
- (8) Amount payable from General Fund (Item 3960-001-0001) from -\$23,325,000 to -\$22,170,000.

I am revising this item to conform to the action I have taken in Item 3960-001-0001.

Item 4170-101-0001—For local assistance, Department of Aging. I reduce this item from \$56,109,000 to \$42,945,000 by reducing:

- (1) 10-Nutrition from \$73,373,000 to \$72,804,000;
- (2) 20-Senior Community Employment from \$10,304,000 to \$7,139,000;
- (3) 30—Supportive Services and Centers from \$71,894,000 to \$65,916,000; and
- (4) 40—Special Projects from \$50,003,000 to \$46,751,000;

and by deleting:

- (4.5) 97.20.004-Local Projects (\$200,000).

I am reducing this item by \$13,164,000 for the following programs:

- \$316,000 from the Home Delivered Meals program;
- \$253,000 from the Congregate Nutrition program;
- \$3,165,000 from Senior Community Employment;
- \$5,978,000 from the Long-term Care Ombudsman and Supportive Services programs;
- \$2,526,000 for the Multipurpose Senior Services Program;
- \$416,000 for the Alzheimer's Day Care Resource Centers;
- \$250,000 for the Linkages program;
- \$60,000 for the Brown Bag program; and
- \$200,000 for the Senior Legal Hotline

While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 4200-001-0001—For support of Department of Alcohol and Drug Programs.
I reduce this item from \$14,701,000 to \$6,019,000 by reducing:

- (1) 15-Alcohol and Other Drug Services Program from \$57,702,000 to \$48,275,000;
- (2) 30.01-Administration from \$11,999,000 to \$8,999,000;
- (3) 30.02-Distributed Administration from -\$11,999,000 to -\$8,999,000;
- (4) Reimbursements from -\$4,932,000 to -\$4,544,000;
- (10) Amount payable from the Substance Abuse Treatment Trust Fund (Item 4200-001-3019) from -\$3,565,000 to -\$3,208,000.

I am reducing this item by \$9,070,000 (\$8,682,000 General Fund and \$388,000 Reimbursements), as follows:

- \$8,000,000 for the California Methamphetamine Prevention Campaign;
- \$776,000 and 5.3 positions for the Drug Medi-Cal Program;
- \$154,000 for the Non-Drug Medi-Cal Program;
- \$110,000 and 0.5 positions for the Drug Court programs; and
- \$30,000 and 0.4 positions for the Offender Treatment Program.

While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am also reducing \$357,000 and 3.0 positions in Item 4200-001-3019 to conform to the action I have taken in Item 4200-105-0001.

Item 4200-001-3019—For support of Department of Alcohol and Drug Programs.
I reduce this item from \$3,565,000 to \$3,208,000.

I am reducing this item by \$357,000 to conform to the action I have taken in Item 4200-105-0001.

Item 4200-101-0001—For local assistance, Department of Alcohol and Drug Programs.
I reduce this item from \$89,197,000 to \$83,665,000 by reducing:

- (1) 15-Alcohol and Other Drug Services Programs from \$438,351,000 to \$423,168,000;
- (4) Amount payable from the Substance Abuse Treatment Fund (Item 4200-101-3019) from -\$96,514,000 to -\$86,863,000.

I am reducing this item by \$5,532,000, as follows:

- \$2,983,000 for the Drug Court programs;
- \$1,970,000 for the Offender Treatment Program; and
- \$579,000 for the Non-Drug Medi-Cal Program.

While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am also reducing \$9,651,000 in Item 4200-101-3019 to conform to the action I have taken in Item 4200-105-0001.

Item 4200-101-3019—For local assistance, Department of Alcohol and Drug Programs. I reduce this item from \$96,514,000 to \$86,863,000.

I am reducing this item by \$9,651,000 to conform to the action I have taken in Item 4200-105-0001.

Item 4200-104-0001—For local assistance, Department of Alcohol and Drug Programs. I reduce this item from \$23,457,000 to \$21,111,000 by reducing:

- (1) 15-Alcohol and Other Drug Services Program from \$40,511,000 to \$38,165,000.

I am reducing this item by \$2,346,000 for perinatal substance abuse treatment programs. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 4200-105-0001—For transfer by the Controller to the Substance Abuse Treatment Trust Fund. I reduce this item from \$100,079,000 to \$90,071,000.

I am reducing this item by \$10,008,000 for the Substance Abuse and Crime Prevention Act program. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am

taking the difficult but necessary action reflected in this veto to further control state spending.

I have taken conforming action in Item 4200-001-3019 and Item 4200-101-3019.

Item 4260-001-0001—For support of Department of Health Care Services. I revise this item by reducing:

(1) 20-Health Care Services from \$383,834,000 to \$381,821,000,

and by deleting:

(10) Amount payable from the California Discount Prescription Drug Program Fund (Item 4260-001-8040) (-\$2,013,000)

I am deleting \$2,013,000 intended to specifically fund costs for the California Discount Prescription Drug Program. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am also deleting Item 4260-001-8040 to conform to this action.

Item 4260-001-8040—For support of Department of Health Care Services. I delete this item and Provisions 1 and 2.

I am deleting this item to conform to the action I have taken in Item 4260-001-0001 regarding the California Discount Prescription Drug Program.

I am also deleting Provision 1 and 2 to conform to this action.

Item 4260-006-0001—For transfer by the Controller to the California Discount Prescription Drug Program Fund. I delete this item and Provision 1.

I am deleting the \$5,870,000 in this item to conform to the action I have taken in Items 4260-001-0001, 4260-001-8040, and 4260-119-8040 regarding the California Discount Prescription Drug Program.

I am also deleting Provisions 1 to conform to this action.

Item 4260-113-0001—For local assistance, Department of Health Care Services.
I reduce this item from \$208,380,000 to \$206,744,000 by:

- (3) Benefits (Medical Care and Services) from \$567,046,000 to \$563,226,000, and
- (4) Amount payable from the Federal Trust Fund (Item 4260-113-0890) from -\$363,428,000 to -\$361,244,000.

I am reducing this item by \$1,636,000 to make a technical correction to conform to the Legislature's action to utilize unanticipated Medi-Cal savings in fiscal year 2007-08 to reduce expenditures in 2008-09.

I am reducing Item 4260-113-0890 by \$2,184,000 to conform with this action.

Item 4260-113-0890—For local assistance, Department of Health Care Services.
I reduce this item from \$363,428,000 to \$361,244,000 to make a technical correction to the Budget Bill.

I am reducing this item by \$2,184,000 to conform to my action in Item 4260-113-0001.

Item 4260-119-8040—For local assistance, Department of Health Care Services.
I delete this item.

I am deleting the \$3,857,000 intended specifically to fund local assistance costs for the California Discount Prescription Drug Program. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 4265-001-0001—For support of Department of Public Health. I reduce this item from \$86,147,000 to \$82,850,000 by reducing:

- (2) 20-Public and Environmental Health from \$501,031,000 to \$497,734,000.

I am reducing this item by \$3,297,000, as follows:

- \$1,042,000 for the Childhood Lead Poisoning Prevention Branch;
- \$976,000 for the Medical Device and Drug Safety Program;
- \$841,000 for the Epidemiology and Prevention for Injury Control Branch;
- \$277,000 for the Prostate Cancer Treatment Program; and
- \$161,000 for the Cosmetic Safety Program.

While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional

requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 4265-111-0001—For local assistance, Department of Public Health. I reduce this item from \$257,472,000 to \$244,479,000 by reducing:

- (3) 20.20-Infectious Disease from \$365,085,000 to \$358,845,000;
- (4) 20.30-Family Health from \$1,504,545,000 to \$1,498,477,000;
- (6) 20.50-County Health Services from \$40,691,000 to \$39,791,000;
- (7) 20.60-Environmental Health from \$132,541,000 to \$131,557,000;
- (8) Reimbursements from -\$160,479,000 to -\$159,280,000;

and by deleting Provision 3.

I am reducing this item by \$5,030,000 (\$3,831,000 General Fund and \$1,199,000 Reimbursements) by eliminating funding to local entities for the following programs:

- \$1,824,000 for the TeenSMART Outreach Program;
- \$1,322,000 for the Male Involvement Program;
- \$984,000 for the Beach Safety Program; and
- \$900,000 for the State Public Health Subvention.

I am also reducing this item by \$3,670,000 by reducing funding to local entities for the following programs:

- \$2,269,000 for the Domestic Violence Program;
- \$748,000 for the Tuberculosis Control Housing Program;
- \$403,000 for the Teen Life Skills Information and Education Program; and
- \$250,000 for the Maternal, Child and Adolescent Health Program.

While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am deleting \$5,492,000 of the \$6,842,000 General Fund legislative augmentation to local health jurisdictions for AIDS/HIV Education and Prevention programs. With this reduction, \$31.8 million still remains to support the AIDS/HIV Education and Prevention programs.

I am also deleting Provision 3, that expresses a legislative wish to have the Department of Public Health not exclude any drugs from the AIDS Drug Assistance Program (ADAP) formulary for the purpose of reducing ADAP expenditures and would require funding to be maintained using the ADAP Rebate Fund. The Office of AIDS within the Department is the appropriate entity to determine the proper alignment of program expenditures within the funding available, including the ADAP Rebate Fund. Provision 3 would restrict the Office of AIDS' ability to manage ADAP expenditures. Consequently, I am vetoing this language.

Item 4440-103-0001—For local assistance, Department of Mental Health. I reduce this item from \$232,856,000 to \$225,136,000 by reducing:

- (1) 10.25-Community Services—Other Treatment from \$232,856,000 to \$225,136,000.

I am reducing this item by \$7,720,000 for the Mental Health Managed Care program. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 4700-001-0001—For support of Department of Community Services and Development. I delete this item.

I am deleting this item to conform to the action I have taken in 4700-101-0001.

Item 4700-101-0001—For local assistance, Department of Community Services and Development. I delete this item.

I am deleting the \$2,565,000 for the for the Naturalization Services program. I am also deleting the \$154,000 in state operations funding for this program (refer to Item 4700-001-0001). While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 5180-001-0001—For support of Department of Social Services. I reduce this item from \$107,134,000 to \$106,640,000 by reducing:

- (2) 25-Social Services and Licensing from \$168,929,500 to \$168,829,500;
- (3) 35-Disability Evaluation and Other Services from \$260,159,500 to \$259,381,500; and
- (6) Reimbursements from -\$26,048,000 to -\$25,664,000.

I am reducing this item by \$778,000 (\$394,000 General Fund) for the Disability Determination program and \$100,000 General Fund for the Independent Adoptions program. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reduction and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 6110-123-0001—For local assistance, Department of Education. I reduce this item from \$120,209,000 to \$114,209,000 by deleting:

- (2) 20-Corrective Actions \$6,000,000.

I am deleting the \$6,000,000 restored by the Legislature that allocates funds to non-Title I Immediate Intervention Underperforming Schools Program (II/USP) schools that are still subject to state sanctions and are working with school assistance and intervention teams (SAITs). Although the II/USP ended in 2004-05, schools continue to receive grants of \$150 per student to implement improvement plans prepared by SAITs. I do not believe that the state should continue to fund these activities. Earlier this year, the Legislature accepted my proposal to eliminate from the Budget federal Title I funds for these purposes. This veto would be consistent with that agreement.

I am deleting provision 2 to conform to this action.

Item 6110-125-0890—For local assistance, Department of Education. I delete Provision 4 of this item.

I am deleting the appropriation located in Section 4 of the provisional language related to a \$1.8 million intervention program for local education agencies not meeting federal Title III benchmarks that was administratively established in the 2007-08 fiscal year as little information has been provided on what the program would achieve. I am deleting Provision 4 to conform to this action.

Item 6120-150-0001—For local assistance, California State Library, for the Civil Liberties Public Education Program. I reduce this item from \$475,000 to \$450,000.

I am reducing this item by \$25,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 6120-160-0001—For local assistance, California State Library, for the California Newspaper Project Program. I reduce this item from \$228,000 to \$216,000.

I am reducing this item by \$12,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 6120-211-0001—For local assistance, California State Library. I reduce this item from \$13,625,000 to \$12,908,000 by reducing:

- (1) 20.30-Direct Loan and Interlibrary Loan Programs from \$10,899,000 to \$10,182,000.

I am reducing this item by \$717,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 6120-213-0001—For local assistance, California State Library, for the English Acquisition and Literacy Program. I reduce this item from \$4,811,000 to \$4,558,000.

I am reducing this item by \$253,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to

do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 6120-221-0001—For local assistance, California State Library, for the Public Library Foundation Program. I reduce this item from \$13,642,000 to \$12,924,000.

I am reducing this item by \$718,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 6610-001-0001—For support of California State University. I revise this item by revising Provision 10.

While I am sustaining the Legislature's action to earmark funding for student academic preparation and student support services programs, I am vetoing the language requiring the university to report on these programs. This reporting requirement would result in an expenditure increase without regard to the availability of revenues. Nevertheless, in recognition of the Legislature's desire to obtain this information, I am instructing the Chancellor of the California State University to comply with this legislative request for this report to the extent compliance can be achieved using existing resources and without impairing the university's ability to perform its essential functions.

I am revising Provision 10 to conform as follows:

~~"10. Of the amount appropriated in Schedule (1), \$52,000,000 is appropriated for student academic preparation and student support services programs. The California State University shall provide \$45,000,000 to support the Early Academic Assessment Program and the Educational Opportunity Program. It is the intent of the Legislature that the university report on the outcomes and effectiveness of the Early Academic Assessment Program to the fiscal committees of each house of the Legislature no later than March 15, 2009."~~

Item 6870-001-0001—For support of Board of Governors of the California Community Colleges. I reduce this item from \$10,109,000 to \$9,778,000 by reducing:

(4.5) 97.20.001-Unallocated Reduction from -\$200,000 to -\$531,000.

I am reducing this item by \$331,000. However, I am sustaining the remaining \$500,000 legislative augmentation for the purpose of ensuring sufficient resources to fill key positions that are critical to maintaining accountability and fiscal oversight functions that will ensure the solvency of all districts. I anticipate that the Chancellor's Office will be able to accommodate the remaining reduction. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going

forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 7980-001-0784—For support of California Student Aid Commission. I reduce this item from \$1,000,000 to \$500,000.

I am reducing \$500,000 from the Federal Policy and Program Division (FPPD) to align funding with the FPPD's responsibilities and to preserve resources. The current funding level exceeds what is necessary to support the staff of the FPPD. Furthermore, any savings that can be achieved in the Student Loan Operating Fund will result in the program being more valuable and thus result in additional General Fund revenue upon the sale, or other transaction, involving EdFund that is authorized by Chapter 182 of the Statutes of 2007.

Item 7100-001-0514—For support of Employment Development Department. I revise this item by deleting Provision 5.

I am deleting Provision 5 which requires the Employment Training Panel (Panel) to prioritize funding for "green jobs" training. This language is unnecessary because the Panel already identifies clean technology products, services, and processes as a priority in its strategic plan, providing more than \$6,900,000 to these industries.

Item 8140-001-0001—For support of State Public Defender. I reduce this item from \$11,551,000 to \$10,928,000 by reducing:

- (1) 10-State Public Defender from \$11,551,000 to \$10,928,000.

I am reducing this item by \$623,000 for the Office of the State Public Defender, which provides post-conviction appellate representation in death penalty cases. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 8570-001-0001—For support of Department of Food and Agriculture. I reduce this item from \$83,730,000 to \$80,341,000 by reducing:

- (1) 11-Agricultural Plant and Animal Health; Pest Prevention; Food Safety Services from \$128,861,000 to \$125,472,000,

and by deleting Provision 5.

I am reducing this item by \$3,389,000 and 8.6 personnel years for the Agricultural Plant and Animal Health; Pest Prevention; Food Safety Services Program. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am deleting Provision 5 because the language is unnecessarily restrictive. These funds are part of the base budget for the Light Brown Apple Moth Eradication Project and should be available for the Department to allocate for use as necessary once the toxicology study that was recently completed has been reviewed and aerial spraying is determined to be a safe tool for the Department to utilize in its eradication efforts.

Item 8570-004-0001—For transfer by the Controller to the Pierce's Disease Management Account. I reduce this item from \$4,380,000 to \$4,150,000.

I am reducing this item by \$230,000 for the Pierce's Disease Control Program. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order for further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 8640-001-0001—For support of Political Reform Act of 1974. I reduce this item from \$2,745,000 to \$2,470,000 by reducing:

- (1) 10-Secretary of State from \$790,000 to \$711,000;
- (2) 20-Franchise Tax Board from \$1,747,000 to \$1,572,000; and
- (3) 30-Department of Justice from \$216,000 to \$195,000.

I am reducing this item by \$275,000 for the Political Reform Act of 1974. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 8940-001-1014—For support of Military Department. I delete this item.

This item contains an appropriation from the Emergency Response Fund, which was not authorized in the final budget package. Therefore, I must delete this item on a technical basis.

Item 9100-101-0001—For local assistance, Tax Relief. I reduce this item from \$693,885,000 to \$503,005,000 by deleting:

- (1) 10-Senior Citizens' Property Tax Assistance (\$40,562,000);
- (3) 30-Senior Citizens Renters' Tax Assistance (\$150,318,000);

and by deleting Provisions 2, 4, and 6.

I am also revising Provision 5 to conform to this action as follows:

“5. Notwithstanding any other provision of law, the Director of Finance may authorize expenditures for Schedules ~~(1)~~, (2), ~~(3)~~, (4), and (5) in excess of or less than the amount appropriated not sooner than 30 days after notification in writing of the necessity therefor is provided to the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may in each instance determine.”

I am reducing this item by \$190,880,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

With the above deletions, revisions, and reductions, I hereby approve Assembly Bill 1781.

/s/ ARNOLD SCHWARZENEGGER

ARNOLD SCHWARZENEGGER

State of California
Governor's Office

I object to the following appropriations contained in Assembly Bill 88.

Item 0690-001-0001—For support of Office of Emergency Services.

I am sustaining Provision 4, which suspends the Government Code Section 8581.5 requirement for the biennial report on emergency preparedness for catastrophic disasters, which was scheduled to be published in 2008-09. However, I am directing the Office of Emergency Services to prepare this report to the extent possible using existing resources.

Item 0690-102-0001—For local assistance, Office of Emergency Services. I revise this item by deleting Provisions 3 and 5.

Provision 3 requires the Office of Emergency Services to allocate \$800,000 to the Central Coast Rural Crime Prevention Program. Funding for this program was reduced by 10 percent, but this language was not amended to reflect the reduced amount. This technical veto is necessary to ensure that all grant recipients receive the same level of reduction. Therefore, I am directing the Office of Emergency Services to allocate the grant funding in a manner consistent with this budget language adjusted for the 10 percent reduction.

Provision 5 would require the Office of Emergency Services to use a competitive grant process for allocating funds to California Multijurisdictional Methamphetamine Enforcement Teams, and would create limitations on the minimum and maximum amounts of grants awarded under this program. This language is unnecessarily restrictive; therefore, I am vetoing this provision.

Item 2640-101-0046—For local assistance, State Transit Assistance. I reduce this item from \$406,434,000 to \$306,434,000.

I am reducing this item by \$100,000,000 for the State Transit Assistance program so that sufficient funding will be available in the Public Transportation Account to provide full reimbursement of the General Fund for its Home-to-School Transportation costs. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law, and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

With the \$5 billion in transit and intercity rail funding provided in Proposition 1B, this will allow a substantial increase in the capacity, safety, and reliability of public transportation throughout the state. The amount I am retaining in this item also continues program funding at a sustainable level.

Item 2660-001-0042—For support of Department of Transportation.

I am sustaining the Legislature's funding for capital outlay support. In the May Revision, I proposed a reduction in positions and dollars for engineering, design, environmental studies, and other work. For the declining amount of ongoing work, I proposed to use an increased share of contractual services, consistent with the provisions of Proposition 35, approved by the voters in 2000.

The Legislature, however, funded 90 percent state staff and 10 percent contract staff. Because it will take a year or more to hire and train state staff as existing staff leave, I am concerned that this action will delay projects by a year or more and end up costing more than using contractual services. Moreover, because the funding from Proposition 1B is one-time and will be exhausted over the next four years, the hiring of new permanent state staff could lead to the need for future layoffs. An appropriate balance between state staff and contract staff will enable the state to improve its highways, roads, bridges, and railroad crossings immediately. Therefore, I am directing the Director of the Department of Transportation to take all steps necessary to deliver these projects as quickly as possible, including an increased use of contractual services beyond the level reflected in the budget action, but within the funding level the Legislature has provided.

Item 3540-001-0001—For support of Department of Forestry and Fire Protection. I reduce this item from \$560,045,000 to \$557,896,000 by reducing:

- (3) 12-Resource Management from \$62,597,000 to \$60,448,000;
- (4) 20.01-Administration from \$67,198,000 to \$66,911,000; and
- (5) 20.02-Distributed Administration from -\$66,536,000 to -\$66,249,000.

I am reducing this item by \$2,149,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance --- I am taking the difficult but necessary action reflected in this veto to further control state spending.

However, I am sustaining \$1,093,000 and 10.0 positions in the Resource Management program to fund vegetation management efforts because fuel reduction projects are a cost-effective way to reduce the number and size of catastrophic wildfires.

Item 3900-001-0044—For support of State Air Resources Board. I revise this item by reducing:

- (2) 25-Stationary Source from \$57,232,000 to \$55,232,000.
- (6) Amount payable from the General Fund (Item 3900-001-0001) from -\$2,189,000 to -\$189,000

I am revising this item to conform to the action I have taken in Item 3900-001-0001.

Item 4260-101-0001—For local assistance, Department of Health Care Services. I revise this item by reducing:

- (1) 20.10.001-Eligibility (County Administration) from \$2,697,119,000 to \$2,689,743,000,
- (9) Amount payable from the Federal Trust Fund (Item 4260-101-0890) from -\$21,448,993,000 to -\$21,441,617,000;

and by deleting Provision 14.

I am revising this item to conform to the action I have taken in Item 4260-101-0890.

I am also deleting Provision 14 from this item, which directs the Department of Health Care Services to provide the Legislature with specific options for improving the Medi-Cal fee-for-service program. While I share the Legislature's interest in improving the coordination of care for Medi-Cal beneficiaries and believe that such efforts will better serve clients and reduce costs, I am deleting the provision as it would limit my discretion in developing a budget proposal.

Item 4260-101-0890—For local assistance, Department of Health Services. I reduce this item from \$21,448,993,000 to \$21,441,617,000.

I am reducing this item by \$7,376,000 to conform to my action in Items 4170-101-0001, 4200-001-0001, 4265-111-0001, 4440-001-0001, and 5180-001-0001.

Item 4300-101-0001—For local assistance, Developmental Services. I reduce this item from \$2,384,027,000 to \$2,382,799,000 by reducing:

- (2) 10.10.020-Purchase of Services from \$3,372,900,000 to \$3,370,854,000, and
- (4) Reimbursements from -\$1,308,405,000 to -\$1,307,587,000.

I am reducing this item by \$2,046,000 (\$1,228,000 General Fund and -\$818,000 Reimbursements). This technical veto is consistent with the pass through of the January 1, 2009 federal Supplemental Security Income cost of living adjustment.

Item 4440-101-0001—For local assistance, Department of Mental Health. I reduce this item from \$480,163,000 to \$480,111,000 by reducing:

- (5) 10.97—Community Services—Healthy Families from \$24,805,000 to \$24,653,000, and
- (6) Reimbursements from -\$1,208,165,000 to -\$1,208,065,000.

I am reducing this item by \$152,000 (\$52,000 General Fund and \$100,000 Reimbursements) for the Healthy Families program. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 5180-101-0001—For local assistance, Department of Social Services. I reduce this item from \$2,808,386,000 to \$2,738,386,000 by reducing:

- (1) 16.30-CalWORKs from \$5,290,712,000 to \$5,220,712,000.

I am reducing this item by \$70,000,000 for the CalWORKs program. This funding would have been available to counties as part of their single allocation, which can be used for county administration, employment services, and child care. Even with this reduction in funding, the single allocation provided to counties still increases from 2007-08 to 2008-09. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 5180-141-0001—For local assistance, Department of Social Services. I reduce this item from \$480,516,000 to \$478,478,000 by reducing:

- (1) 16.75-County Administration and Automation Projects from \$1,194,774,000 to \$1,192,736,000.

I am reducing this item by \$2,038,000 for the Work Incentive Nutritional Supplement program. By eliminating this funding, I am delaying implementation of this program for one year. This will allow the Department of Social Services to study this program and ensure it is consistent with federal rules. Further, while this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 5180-151-0001—For local assistance, Department of Social Services. I reduce this item from \$757,135,000 to \$750,727,000 by reducing:

- (1) 25.30-Children and Adult Services and Licensing from \$2,151,082,000 to \$2,139,650,000;
- (2) 25.35-Special Programs from \$22,682,000 to \$22,101,000;
- (3) Reimbursements from -\$143,894,000 to -\$138,589,000; and
- (6) Amount payable from the Federal Trust Fund (Item 5180-151-0890) from -\$1,263,716,000 to -\$1,263,416,000.

I am reducing this item by \$11,432,000 (\$6,127,000 General Fund) for the Adult Protective Services program, and by \$581,000 (\$281,000 General Fund) for the Deaf Access program.

While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law, and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 5180-151-0890—For local assistance, Department of Social Services. I reduce this item from \$1,263,716,000 to \$1,263,416,000.

I am reducing this item to conform to the action I have taken in 5180-151-0001 related to the Deaf Access program.

Item 5225-001-0001—For support of the California Department of Corrections and Rehabilitation. I reduce this item from \$7,173,074,000 to \$7,145,074,000 by reducing:

- (8) 25-Adult Corrections and Rehabilitation Operations from \$4,974,568,000 to \$4,946,568,000.

I am directing the Secretary of the California Department of Corrections and Rehabilitation to implement a Parole Decision-Making Instrument (PDMI) that provides guidelines on how to respond to technical parole violations based on the risk-to-reoffend level of the offender and the seriousness of the violation. I believe that the use of the PDMI by parole agents will facilitate the reintegration into society of low-risk parolees by providing community-based sanctions and programs. By providing alternatives to incarceration for parolees who commit minor technical parole violations, the Department will be able to reduce prison overcrowding. Consistent with this direction, I am reducing \$22,000,000 from this item to reflect lower adult inmate population levels.

I am also reducing this item by an additional \$6,000,000 to reflect a delay in the activation of Female Rehabilitative Community Correctional Center beds that resulted from the state's late budget.

Item 6110-001-0001—For support of Department of Education. I revise this item by reducing:

- (2) 20-Instruction Support from \$174,201,000 to \$173,909,000;
- (3) 30-Special Programs from \$54,659,000 to \$54,351,000; and
- (9) Amount payable from Federal Trust Fund (Item 6110-001-0890) from -\$171,015,000 to -\$170,415,000.

I am revising this item to conform to the action I have taken in Item 6110-001-0890.

Item 6110-001-0890—For support of Department of Education. I reduce this item from \$171,015,000 to \$170,415,000.

I am deleting the legislative augmentation of \$600,000 federal Title I funds to enhance an evaluation of the Migrant Education program. The Budget Act of 2007 provided \$800,000 for

completing a comprehensive needs assessment, developing the state educational agencies service delivery plan, and contracting for an evaluation to meet federal requirements. The appropriation provided in 2007 should be sufficient for producing a useful program evaluation.

I am deleting Provision 30 to conform to this action.

I am deleting provisional language that would appropriate \$1,200,000 of Title III funds proposed for unspecified English learner state level activities (state operations) in 2009-10 as it is premature to appropriate funds for 2009-10, for projects that have not been developed or justified.

I am deleting provision 34 to conform to this action.

Item 6110-130-0001—For support of the Department of Education, Instructional Support. I reduce this item from \$9,035,000 to \$8,131,000.

I am reducing this item by \$904,000 for the Advancement Via Individual Determination program. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law, and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am revising Provision 1 to conform to this action as follows:

“1. Of the funds appropriated, ~~\$1,300,000~~ \$1,170,000 is available for administration of the Advancement Via Individual Determination (AVID) centers.”

Item 6110-196-0001—For local assistance, Department of Education. I revise this item by deleting Provisions 4(e) and 9(b).

I am deleting Provision 4(e), which would specify principles for the State Department of Education (SDE) to follow when developing the 2008-09 expenditure plan for state and local activities to improve child care. The language is unnecessary and does not specify any clear priorities for development of the expenditure plan.

I am deleting Provision 9(b), which would restrict the start point on the family fee schedule to 40 percent of the State Median Income as adjusted for family size. This Provision is inconsistent with the prior agreement reached between the Administration and the Legislature that families currently paying fees continue to do so as income eligibility is adjusted. Additionally, this language would result in lower fee revenues, increased costs in child care programs, and reduced capacity to serve children.

I am sustaining Provision 2(b), which would provide details for the expenditures of the appropriation and specify the rate limits for alternative payment and other voucher-based programs based on the 85th percentile of the 2007 Regional Market Rate Survey with an effective date of March 1, 2009. While I must sustain this provision because a statute would otherwise control the appropriation and drive the rates, I am concerned that this language will

drive considerably higher costs per case in the future, similar to the rate increases experienced in 2007-08.

I am also sustaining Provision 14, which specifies intent to fully fund the third stage (Stage 3) of child care for former CalWORKS families. This intent statement duplicates statutory intent language and, while it reflects a goal to provide sufficient funds, I want to be clear that inclusion of this language in the budget bill is not a commitment to fund any deficiency that might occur.

Item 6110-202-0001—For local assistance, Department of Education. I reduce this item from \$11,742,000 to \$10,880,000 by reducing:

- (1) 30.20.010-Child Nutrition Programs from \$11,742,000 to \$10,880,000.

I am reducing this item by \$862,000. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law, and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

Item 6110-488—Reappropriation, Proposition 98, Department of Education. I revise this item from \$163,051,000 to \$146,651,000, and by deleting:

I am deleting the \$16,400,000 augmentation to Stage 2 child care to align expenditures with updated caseload estimates. With this reduction, a total of \$516,611,000 still remains in the budget to support the CalWORKs Stage 2 program which should be sufficient for the estimated caseload under the authorized eligibility, copayment, and subsidy policies.

I am revising Provision 3 to conform to this action.

“3. The sum of ~~\$163,051,000~~ *\$146,651,000* is hereby reappropriated to the State Department of Education for transfer by the Controller to Section A of the State School Fund for allocation by the Superintendent of Public Instruction for the purpose of funding CalWORKs Stage 2 child care. The amount reappropriated pursuant to this provision is for use in the 2008-09 fiscal year.”

I am deleting the one-time legislative augmentation of \$295,000 for assessments of the Oakland Unified, Vallejo City Unified, and West Fresno Elementary School Districts. Current law specifies that these emergency loan districts are responsible for the costs of these reports. Therefore, I am eliminating this augmentation.

I am deleting Provision 2 to conform to this action.

Item 6440-001-0001—For support of University of California. I reduce this item from \$3,000,920,000 to \$2,995,520,000 by decreasing:

- (1) Support from \$3,123,516,000 to \$3,118,116,000,

and by revising Provisions 14 and 24 and by deleting Provision 16.

I am reducing this item by \$5,400,000 to eliminate funding that supports research on labor and employment and labor education. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am also revising Provision 24 of this item to conform as follows:

~~"24. Of the funds appropriated in Schedule (1), \$5,400,000 \$0 is to support research on labor and employment and labor education throughout the University of California system. Of these funds, 60 percent shall be for labor research and 40 percent shall be for labor education."~~

Further, while I am sustaining the Legislature's action to earmark funding for student academic preparation and education programs (SAPEP), I am vetoing the language requiring the university to report on its use of funds for SAPEP activities. This reporting requirement would result in an expenditure increase without regard to the availability of revenues. Nevertheless, in recognition of the Legislature's desire to obtain this information. I am instructing the President of the University of California to comply with this legislative request for this report to the extent compliance can be achieved using existing resources and without impairing the university's ability to perform its essential functions.

I am revising Provision 14 to conform as follows:

~~"14. Of the funds appropriated in Schedule (1), \$19,300,000 is for student academic preparation and education programs (SAPEP) and is to be matched with \$12,000,000 from existing university resources, for a total of \$31,300,000 for these programs. The University of California shall provide a plan to the Department of Finance and the fiscal committees of each house of the Legislature for expenditure of both state and university funds for SAPEP by September 1 of each year. It is the intent of the Legislature that the university report on the use of state and university funds provided for these programs, including detailed information on the outcomes and effectiveness of academic preparation programs consistent with the accountability framework developed by the university in April 2005. The report shall be submitted to the fiscal committees of each house of the Legislature no later than April 1, 2009."~~

Finally, I am deleting the legislative redirection of \$15,000,000 from funds budgeted for administrator compensation to support salary increases and a step pay system for low-wage service employees. Given the 10 percent reduction to the university's institutional support budget that was adopted by the Legislature, the University should be provided the flexibility to allocate its resources to preserve core administrative functions. Further, employee salaries should be negotiated in collective bargaining agreements between the University and its service employees.

I am deleting Provision 16 to conform to this action.

Item 7980-001-0001—For support of California Student Aid Commission. I reduce this item from \$14,206,000 to \$13,527,000 by decreasing:

- (1.5) 50-California Loan Program from \$1,000,000 to \$500,000;
- (3.5) 97.20.001 Unallocated Reduction from -789,000 to -1,468,000;
- (4.5) Amount payable from the Student Loan Operating Fund (7980-001-0784) from -\$1,000,000 to -\$500,000;

and by revising Provision 4.

I am reducing this item by \$679,000. However, I am sustaining the remaining \$111,000 legislative augmentation for the purpose of funding additional ongoing telephone system and Department of Technology Services costs that were identified after the January budget proposal. While this budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.

I am also revising Provision 4 of this item to conform to the action I have taken in Item 7980-001-0784 as follows:

“4. (a) This item reflects ~~\$1,000,000~~ \$500,000 payable from the Student Loan Operating Fund for the purpose of funding, on a limited-term basis, 6.0 positions in the Federal Policy and Programs Division. Those positions shall be continued until a sale or other authorized transaction is completed pursuant to Chapter 182 of the Statutes of 2007, which is anticipated to occur in-the 2009-10 fiscal year.

(b) Additionally, this item reflects an increase of \$1,010,000 available on a one-time basis for necessary moving costs, furnishings, and equipment associated with relocation of the Student Aid Commission. Not later than August 1, 2008, the commission shall detail and submit for approval to the Department of Finance, and for informational purposes to the Chairperson of the Joint Legislative Budget Committee, all one-time costs estimated to be necessary for relocation of the commission. Any funds remaining shall be available for any expenses that may be necessary or convenient to further the intent of the sale or other authorized transaction of EdFund pursuant to Chapter 182 of the Statutes of 2007 upon the written approval of the Department of Finance.”

Item 7980-101-0001—For support of California Student Aid Commission. I revise this item by revising Provision 1.

I am deleting the legislative augmentation to Provision 1(d), which increased the number of Assumption Program of Loans for Education (APLE) awards by 800. The remaining amount of authorized awards in the budget is 7,200. I proposed fewer APLE awards to curb the growth in required APLE payments in the context of budget balancing reductions and because the Student Aid Commission has historically not utilized all the awards. This reduction is necessary

to limit future ongoing expenditures in line with ongoing resources as we work towards resolving the structural budget imbalance.

I am revising Provision 1 as follows:

- “1. Funds appropriated in Schedule (1) are for purposes of all of the following:
- (a) Awards in the Cal Grant Program under Chapter 1.7 (commencing with Section 69430) and Article 3 (commencing with Section 69530) of Chapter 2 of Part 42 of Division 5 of Title 3 of the Education Code.
 - (b) Grants under the Law Enforcement Personnel Dependents Scholarship Program pursuant to Section 4709 of the Labor Code.
 - (c) California Student Opportunity and Access Program contract agreements under Article 4 (commencing with Section 69560) of Chapter 2 of Part 42 of Division 5 of Title 3 of the Education Code.
 - (d) The purchase of loan assumptions under Article 5 (commencing with Section 69612) of Chapter 2 of Part 42 of Division 5 of Title 3 of the Education Code. The Student Aid Commission shall issue ~~8,000~~ 7,200 new warrants.
 - (e) The purchase of loan assumptions under the Graduate Assumption Program of Loans for Education pursuant to Article 5.5 (commencing with Section 69618) of Chapter 2 of Part 42 of Division 5 of Title 3 of the Education Code.
 - (f) The purchase of loan assumptions under the State Nursing Assumption Program of Loans for Education (SNAPLE) Employees of State Facilities Program pursuant to Article 2 (commencing with Section 70120) of Chapter 3 of Part 42 of Division 5 of Title 3 of the Education Code.
 - (g) The purchase of loan assumptions under the State Nursing Assumption Program of Loans for Education (SNAPLE) pursuant to Article 1 (commencing with Section 70100) of Chapter 3 of Part 42 of Division 5 of Title 3 of the Education Code.
 - (h) The Student Aid Commission shall report by April 1, 2009, on the State Nursing Assumption Program of Loans for Education, pursuant to the reporting requirements of Section 70108 of the Education Code.
 - (i) Of the amount appropriated in Schedule (1), \$297,000 is provided for loan assumption payments to participants in the National Guard Assumption Program of Loans for Education pursuant to Article 12.5 (commencing with Section 69750) of Chapter 2 of Part 42 of the Education Code.
 - (j) Notwithstanding subdivision (c) of Section 69613.8 of the Education Code, any Assumption Program of Loans for Education participant who meets the requirements of subdivision (a) or (b) of Section 69613.8 of the Education Code may receive the additional loan assumption benefits authorized by those subdivisions.”

Item 8380-001-0001—For support of Department of Personnel Administration.

I am revising this item in order to correct a technical error in the Budget Bill:

- (1) 10-Classification and Compensation from \$6,442,000 to \$6,414,000;
- (2) 20-Labor Relations from \$3,480,000 to \$3,464,000;
- (3) 25-Legal from \$7,947,000 to \$7,919,000;

(5) 40.02-Distributed Administration from -\$4,457,000 to -\$4,370,000; and

(6) 54-Benefits Administration from \$32,972,000 to \$32,957,000.

With the above deletions, revisions, and reductions, I hereby approve Assembly Bill 88.

/s/ ARNOLD SCHWARZENEGGER

ARNOLD SCHWARZENEGGER